LEGGETT & PLATT INC
Form 10-Q
May 05, 2011

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 March 31, 2011

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 001-07845

LEGGETT & PLATT, INCORPORATED

(Exact name of registrant as specified in its charter)

Missouri	**44-0324630**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
No. 1 Leggett Road Carthage, Missouri	**64836**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (417) 358-8131

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

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

Common stock outstanding as of May 2, 2011: 142,895,892

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LEGGETT & PLATT, INCORPORATED

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(Amounts in millions)	March 31, 2011	December 31, 2010
CURRENT ASSETS		
Cash and cash equivalents	$ 195.4	$ 244.5
Accounts and other receivables, net	575.6	478.9
Inventories		
Finished goods	252.5	241.1
Work in process	59.0	47.7
Raw materials and supplies	227.9	218.2
LIFO reserve	(77.2)	(71.7)
Total inventories, net	462.2	435.3
Other current assets	57.2	60.4
Total current assets	1,290.4	1,219.1
PROPERTY, PLANT AND EQUIPMENT - AT COST		
Machinery and equipment	1,146.4	1,136.6
Buildings and other	621.1	613.0
Land	46.4	48.5
Total property, plant and equipment	1,813.9	1,798.1
Less accumulated depreciation	1,197.8	1,173.9
Net property, plant and equipment	616.1	624.2
OTHER ASSETS		
Goodwill	940.2	930.3
Other intangibles, less accumulated amortization of $113.0 and $107.8 as of March 31, 2011 and December 31, 2010, respectively	147.9	152.3
Sundry	72.3	75.1
Total other assets	1,160.4	1,157.7
TOTAL ASSETS	$ 3,066.9	$ 3,001.0
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 2.2	$ 2.2
Accounts payable	301.8	226.4
Accrued expenses	206.9	209.5
Other current liabilities	74.8	84.9
Total current liabilities	585.7	523.0
LONG-TERM LIABILITIES		
Long-term debt	821.9	762.2
Other long-term liabilities	127.5	121.9

Deferred income taxes	74.0	69.5
Total long-term liabilities	1,023.4	953.6
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock	2.0	2.0
Additional contributed capital	455.8	463.2
Retained earnings	2,038.1	2,033.3
Accumulated other comprehensive income	124.2	101.8
Treasury stock	(1,180.9)	(1,093.0)
Total Leggett & Platt, Inc. equity	1,439.2	1,507.3
Noncontrolling interest	18.6	17.1
Total equity	1,457.8	1,524.4
TOTAL LIABILITIES AND EQUITY	$ 3,066.9	$ 3,001.0

See accompanying notes to consolidated condensed financial statements.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required for annual financial statements by generally accepted accounting principles in the United States of America.

LEGGETT & PLATT, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(Amounts in millions, except per share data)	**Three Months Ended March 31, 2011**	**Three Months Ended March 31, 2010**
Net sales	$ 895.8	$ 816.4
Cost of goods sold	725.8	650.9
Gross profit	170.0	165.5
Selling and administrative expenses	95.8	92.3
Amortization of intangibles	4.8	5.0
Other income, net	(4.8)	(9.0)
Earnings from continuing operations before interest and income taxes	74.2	77.2
Interest expense	9.5	9.3
Interest income	1.5	1.1
Earnings from continuing operations before income taxes	66.2	69.0
Income taxes	19.9	21.5
Earnings from continuing operations	46.3	47.5
Earnings (loss) from discontinued operations, net of tax		(.6)
Net earnings	$ 46.3	$ 46.9
(Earnings) loss attributable to noncontrolling interest, net of tax	(1.3)	(1.8)
Net earnings attributable to Leggett & Platt, Inc. common shareholders	$ 45.0	$ 45.1
Earnings per share from continuing operations attributable to Leggett & Platt, Inc. common shareholders		
Basic	$ .30	$ .30
Diluted	$ .30	$ .30
Earnings per share from discontinued operations attributable to Leggett & Platt, Inc. common shareholders		
Basic	$ .00	$ .00
Diluted	$ .00	$ .00
Net earnings per share attributable to Leggett & Platt, Inc. common shareholders		
Basic	$ .30	$ .30
Diluted	$ .30	$ .29
Cash dividends declared per share	$ .27	$ .26
Average shares outstanding		
Basic	149.2	152.6
Diluted	150.8	154.3

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in millions)	**Three Months Ended March 31, 2011**	**2010**
OPERATING ACTIVITIES		
Net earnings	$ 46.3	$ 46.9
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation	25.3	26.9
Amortization	4.8	5.0
Provision for losses on accounts and notes receivable	3.1	1.4
Writedown of inventory	3.1	3.0
Asset impairment charges	3.0	2.3
Net gain from sales of assets and businesses	(8.5)	(11.5)
Deferred income tax expense	7.2	5.0
Stock-based compensation	13.3	13.3
Other	(4.3)	(1.3)
Other changes, excluding effects from acquisitions and divestitures:		
Increase in accounts and other receivables	(88.2)	(58.9)
Increase in inventories	(27.3)	(36.5)
Decrease in other current assets	2.3	2.4
Increase in accounts payable	63.5	39.2
Increase in accrued expenses and other current liabilities	3.2	13.9
NET CASH PROVIDED BY OPERATING ACTIVITIES	46.8	51.1
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(16.7)	(13.5)
Purchases of companies, net of cash acquired	(.6)	(.4)
Proceeds from sales of assets and businesses	17.1	10.0
Other	(.7)	(.4)
NET CASH USED FOR INVESTING ACTIVITIES	(.9)	(4.3)
FINANCING ACTIVITIES		
Additions to debt	59.1	35.0
Payments on debt	(13.4)	(19.5)
Dividends paid	(39.7)	(38.7)
Issuances of common stock	4.0	2.0
Purchases of common stock	(113.7)	(34.0)
Other	5.5	.3
NET CASH USED FOR FINANCING ACTIVITIES	(98.2)	(54.9)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	3.2	(5.2)
DECREASE IN CASH AND CASH EQUIVALENTS	(49.1)	(13.3)
CASH AND CASH EQUIVALENTS - January 1,	244.5	260.5
CASH AND CASH EQUIVALENTS - March 31,	$ 195.4	$ 247.2

See accompanying notes to consolidated condensed financial statements.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in millions, except per share data)

1. INTERIM PRESENTATION

The interim financial statements of Leggett & Platt, Incorporated (we , us or our) included herein have not been audited by an independent registered public accounting firm. The statements include all adjustments, including normal recurring accruals, which management considers necessary for a fair presentation of our financial position and operating results for the periods presented. We have prepared the statements pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The operating results for interim periods are not necessarily indicative of results to be expected for an entire year.

For further information, refer to the financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2010.

2. NEW ACCOUNTING GUIDANCE

The FASB has issued accounting guidance effective for current and future periods (that we have not yet adopted), but we do not believe any of the new guidance will have a material impact on our current or future financial statements.

3. INVENTORIES

About 60% of our inventories are valued using the Last-In, First-Out (LIFO) cost method and the remainder using the First-In, First-Out (FIFO) cost method.

We calculate our LIFO reserve (the excess of FIFO cost over LIFO cost) on an annual basis. During interim periods, we estimate the current year annual change in the LIFO reserve (i.e., the annual LIFO expense or benefit) and allocate that change ratably to the four quarters. Because accurately predicting inventory prices for the year is difficult, the change in the LIFO reserve for the full year could be significantly different from the amount currently estimated. In addition, a variation in expected ending inventory levels could also impact total change in the LIFO reserve for the year. Any change in the annual LIFO estimate will be reflected in the remaining quarters.

The following table contains the LIFO expense included in earnings for each of the periods presented.

	Three Months Ended March 31,	
	2011	2010
LIFO expense	$ 5.5	$ 2.1

4. SEGMENT INFORMATION

We have four operating segments that are generally focused on broad end-user markets for our diversified products. Residential Furnishings derives its revenues from components for bedding, furniture and other furnishings, as well as related consumer products. Commercial Fixturing & Components derives its revenues from retail store fixtures, displays and components for office and institutional furnishings. Industrial Materials derives its revenues from drawn steel wire, specialty wire products and welded steel tubing sold to trade customers as well as our other segments. Specialized Products derives its revenues from automotive seating components, specialized machinery and equipment, and commercial vehicle interiors.

Our reportable segments are the same as our operating segments, which also correspond with our management organizational structure. Each reportable segment has a senior operating vice-president that reports to the chief operating decision maker. The operating results and financial information reported through the segment structure are regularly reviewed and used by the chief operating decision maker to evaluate segment performance, allocate overall resources and determine management incentive compensation.

Separately, we also utilize a role-based approach (Grow, Core, Fix or Divest) as a supplemental management tool to ensure capital (which is a subset of the overall resources referred to above) is efficiently allocated within the reportable segment structure.

The accounting principles used in the preparation of the segment information are the same as those used for the consolidated financial statements, except that the segment assets and income reflect the FIFO basis of accounting for inventory. Certain inventories are accounted for using the LIFO basis in the consolidated financial statements. We evaluate performance based on earnings from operations before interest and income taxes (EBIT). Intersegment sales are made primarily at prices that approximate market-based

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

4. SEGMENT INFORMATION (continued)

selling prices. Centrally incurred costs are allocated to the segments based on estimates of services used by the segment. Certain of our general and administrative costs and miscellaneous corporate income and expenses are allocated to the segments based on sales and EBIT. These allocated corporate costs include depreciation and other costs and income related to assets that are not allocated or otherwise included in the segment assets.

A summary of segment results from continuing operations are shown in the following tables.

	External Sales	Inter-Segment Sales	Total Sales	EBIT
Three Months ended March 31, 2011:				
Residential Furnishings	$ 457.5	$ 2.3	$ 459.8	$ 42.1
Commercial Fixturing & Components	127.8	1.2	129.0	8.2
Industrial Materials	145.5	64.8	210.3	14.0
Specialized Products	165.0	9.8	174.8	18.1
Intersegment eliminations				(2.7)
Change in LIFO reserve				(5.5)
	$ 895.8	$ 78.1	$ 973.9	$ 74.2
Three Months ended March 31, 2010:				
Residential Furnishings	$ 432.3	$ 2.1	$ 434.4	$ 49.1
Commercial Fixturing & Components	140.7	1.0	141.7	7.9
Industrial Materials	115.3	61.8	177.1	13.4
Specialized Products	128.1	8.3	136.4	8.4
Intersegment eliminations				.5
Change in LIFO reserve				(2.1)
	$ 816.4	$ 73.2	$ 889.6	$ 77.2

Average assets for our segments are shown in the table below and reflect the basis for return measures used by management to evaluate segment performance. These segment totals include working capital (all current assets and current liabilities) plus net property, plant and equipment. Segment assets for all years are reflected at their estimated average for the periods presented.

	March 31, 2011	December 31, 2010
Residential Furnishings	$ 619.8	$ 645.3
Commercial Fixturing & Components	174.1	185.2
Industrial Materials	206.9	211.6
Specialized Products	219.5	207.9
Average current liabilities included in segment numbers above	397.5	381.1

Unallocated assets (1)	1,386.3	1,448.6
Difference between average assets and period-end balance sheet	62.8	(78.7)
Total assets	$ 3,066.9	$ 3,001.0

(1) Primarily goodwill, other intangibles, cash and notes receivable

5. DISCONTINUED OPERATIONS

Exit activities associated with an extensive review of our business portfolio in 2007 (which included the divestiture of seven businesses, the pruning of some business and the closure of certain underperforming plants) were substantially complete by the end of 2008. However, a small amount of subsequent activity directly related to these divestitures continued into 2010.

The sale of the last business, the Storage Products unit (previously reported in Commercial Fixturing and Components) was completed in the third quarter of 2010. No significant gain or loss was realized on the sale of this unit.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

5. DISCONTINUED OPERATIONS (continued)

Results from discontinued operations and activity directly related to divestitures subsequent to the date of sale were as follows:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
External sales:		
Commercial Fixturing & Components - Storage Products Unit	$	$ 12.2
Earnings (loss):		
Commercial Fixturing & Components - Storage Products Unit (1)	$	$ (.8)
Subsequent activity related to divestitures completed prior to 2010		(.1)
Earnings (loss) before interest and income taxes		(.9)
Income tax (expense) benefit		.3
Earnings (loss) from discontinued operations, net of tax	$	$ (.6)

(1) In the first quarter of 2010, pre-tax impairment charges of $.9 were recorded to reflect an updated estimate of fair value less costs to sell.

6. EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Earnings:		
Earnings from continuing operations	$ 46.3	$ 47.5
(Earnings) loss attributable to noncontrolling interest, net of tax	(1.3)	(1.8)
Net earnings from continuing operations attributable to Leggett & Platt, Inc. common shareholders	45.0	45.7
Earnings (loss) from discontinued operations, net of tax		(.6)
Net earnings attributable to Leggett & Platt, Inc. common shareholders	$ 45.0	$ 45.1
Weighted average number of shares:		
Weighted average number of common shares used in basic EPS	149.2	152.6
Additional dilutive shares principally from the assumed exercise of outstanding stock options	1.6	1.7

Weighted average number of common shares and dilutive potential common shares used in diluted EPS	150.8	154.3
Basic and Diluted EPS:		
Basic EPS attributable to Leggett & Platt, Inc. common shareholders		
Continuing operations	$ .30	$ .30
Discontinued operations	.00	.00
Basic EPS attributable to Leggett & Platt, Inc. common shareholders	$ .30	$ .30
Diluted EPS attributable to Leggett & Platt, Inc. common shareholders		
Continuing operations	$ .30	$ .30
Discontinued operations	.00	.00
Diluted EPS attributable to Leggett & Platt, Inc. common shareholders	$ .30	$ .29
Other information:		
Shares issuable under employee and non-employee stock options	12.3	13.5
Anti-dilutive shares excluded from diluted EPS computation	2.4	4.4

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consisted of the following:

	March 31, 2011		December 31, 2010	
	Current	Long-term	Current	Long-term
Trade accounts receivable	$ 531.2	$	$ 438.3	$
Customer-related and other notes	7.4	4.9	7.7	4.3
Notes received as partial payment for divestitures	7.4	11.1	8.0	11.1
Income tax receivables	24.6		25.2	
Other receivables	29.1		21.8	
Total accounts and other receivables	599.7	16.0	501.0	15.4
Allowance for doubtful accounts:				
Net trade accounts receivable	(24.0)		(22.0)	
Customer-related and other notes	(.1)	(1.7)	(.1)	(1.1)
Total allowance for doubtful accounts	(24.1)	(1.7)	(22.1)	(1.1)
Total net receivables	$ 575.6	$ 14.3	$ 478.9	$ 14.3

Notes are evaluated individually for impairment, and we had no significant impaired notes for the periods presented.

There were no past due amounts related to notes received as partial payment for divestitures. Past due amounts for other notes were less than $3.0 at March 31, 2011, of which approximately $1.0 had been placed on non-accrual status.

Activity related to the allowance for doubtful accounts is reflected below:

	Balance at December 31, 2010	2011 Charges	2011 Charge-offs, net of recoveries	Balance at March 31, 2011
Net trade accounts receivable	$ 22.0	$ 2.8	$ .8	$ 24.0
Customer-related and other notes	1.2	.3	(.3)	1.8
	$ 23.2	$ 3.1	$ .5	$ 25.8

8. STOCK-BASED COMPENSATION

The following table recaps the components of stock-based compensation for each period presented:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Stock-based compensation expense:		
Amortization of the grant date fair value of stock options (1)	$ 2.8	$ 2.6
Stock-based retirement plans contributions (2)	2.1	2.3
Discounts on various stock awards:		
Deferred Stock Compensation Program	.6	.5
Stock-based retirement plans	.9	.9
Discount Stock Plan	.2	.2
Performance Stock Unit awards (3)	1.8	1.9
Restricted Stock Unit awards	.5	.4
Other, primarily non-employee directors restricted stock	.4	.6
Total stock-based compensation expense	9.3	9.4
Employee contributions for above stock plans	4.0	3.9
Total stock-based compensation	$ 13.3	$ 13.3
Recognized tax benefits on stock-based compensation expense	$ 3.5	$ 3.6

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. STOCK-BASED COMPENSATION (continued)

(1) Stock Option Grants
Our most significant stock options are granted annually on a discretionary basis to a broad group of employees.

In connection with the January 2010 grant, we gave most participants the choice to receive stock options or to receive a cash payment in the first quarter in lieu of options. The value of the cash alternative was equal to approximately one-half of the Black Scholes value of the option grant the employee would have otherwise received.

In January 2011, we offered two different option choice programs. One group of employees was offered the same option/cash choice as in 2010, with the cash alternative being equal to approximately one-half of the Black-Scholes value of the option grant foregone. Another group of employees, generally higher level employees, were offered a choice between stock options or restricted stock units (RSUs), on a ratio of four options foregone for every one RSU offered. The RSUs vest in one-third increments at 12 months, 24 months and 36 months after the date of grant.

The following table summarizes fair values calculated (and assumptions utilized) using the Black-Scholes option pricing model for all options granted in the periods presented:

	Three Months Ended March 31,	
	2011	**2010**
Options granted (in millions)	1.0	1.3
Aggregate grant date fair value	$ 4.9	$ 5.1
Weighted-average per share grant date fair value	$ 4.90	$ 4.08
Risk-free interest rate	2.7%	3.1%
Expected life in years	7.1	6.9
Expected volatility (over expected life)	33.3%	33.2%
Expected dividend yield (over expected life)	4.7%	5.2%
Cash payments to employees elected in lieu of options	$ .3	$ .6

(2) Stock-Based Retirement Plans
We have two stock-based retirement plans: the tax-qualified Stock Bonus Plan (SBP) for non-highly compensated employees, and the non-qualified Executive Stock Unit Program (ESUP) for highly compensated employees. We make matching contributions to both plans. In addition to the automatic 50% match, we will make another matching contribution of up to 50% of the employee s contributions for the year if certain profitability levels as defined in the SBP and the ESUP are obtained.

Beginning April 1, 2011, ESUP participant contributions will be credited to a diversified investment account established for the participant. The diversified investment accounts will consist of various mutual funds and retirement target funds and will be settled in cash. We will make premium contributions to the diversified investment accounts equal to 17.65% of the participant s contribution. A participant s diversified investment account balance will be adjusted to mirror the investment experience, whether positive or negative, of the diversified investments selected by the participant. Participants may change investment elections in the diversified investment accounts, but cannot purchase Company common stock or stock units in these accounts. Company matching contributions will be in the form of Company stock units, and participants may not diversify this portion of their accounts.

(3) Performance Stock Unit Awards

We also grant Performance Stock Unit (PSU) awards in the first quarter of each year to selected officers and other key managers. These awards contain the following conditions:

- A service requirement Awards generally cliff vest three years following the grant date; and

- A market condition Awards are based on our Total Shareholder Return [TSR = (Change in Stock Price + Dividends) / Beginning Stock Price] as compared to the TSR of a group of peer companies. The peer group consists of all the companies in the Industrial, Materials and Consumer Discretionary sectors of the S&P 500 and S&P Midcap 400 (approximately 320 companies). Participants will earn from 0% to 175% of the base award depending upon how our Total Shareholder Return ranks within the peer group at the end of the 3-year performance period.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

8. STOCK-BASED COMPENSATION (continued)

Grant date fair values are calculated using a Monte Carlo simulation of stock and volatility data for Leggett and each of the comparator companies and are based upon assumptions similar to those used for stock options. Grant date fair values are amortized using the straight-line method over the three-year vesting period.

Below is a summary of the number of shares and related grant date fair value of PSU s for the periods presented:

	Three Months Ended March 31, 2011	2010
Total shares base award (in millions)	.3	.3
Grant date per share fair value	$ 25.41	$ 21.96

The three-year performance cycle of the 2008 award was completed on December 31, 2010. Our TSR performance, relative to the peer group, ranked among the top one-tenth of the S&P 500 companies; accordingly, participants earned 175% of the base award and ..9 million shares were distributed in January 2011.

Beginning with the 2010 award (that will be settled in 2013), thirty-five percent (35%) of awards will be paid out in cash. We intend to pay out the remaining sixty-five percent (65%) in shares of our common stock, although we reserve the right to pay up to one hundred percent (100%) in cash. The 35% portion is recorded as a liability and is adjusted to fair value at each reporting period.

	March 31, 2011	December 31, 2010
PSU liability to be settled in cash	$ 1.5	$ 1.1

9. EMPLOYEE BENEFIT PLANS

The following table provides interim information as to our domestic and foreign defined benefit pension plans. Expected 2011 employer contributions are not significantly different than the $8.7 previously reported at December 31, 2010.

	Three Months Ended March 31, 2011	2010
Components of net pension expense		
Service cost	$ .6	$ .6
Interest cost	3.4	3.3
Expected return on plan assets	(3.4)	(3.2)
Recognized net actuarial loss	1.0	.9
Net pension expense	$ 1.6	$ 1.6

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

10. STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

	Three Months Ended March 31, 2011							
	Comprehensive Income (Loss) Attributable to Leggett & Platt, Inc. Before Noncontrolling Interest	Comprehensive Income (Loss) Attributable to Noncontrolling Interest	Total Equity	Retained Earnings	Common Stock & Additional Contributed Capital	Treasury Stock	Noncontrolling Interest	Accumulated Other Comprehensive Income
Beginning balance, January 1, 2011	$	$	$ 1,524.4	$ 2,033.3	$ 465.2	$ (1,093.0)	$ 17.1	$ 101.8
Net earnings	46.3		46.3	46.3				
(Earnings) loss attributable to noncontrolling interest, net of tax		(1.3)		(1.3)			1.3	
Dividends declared			(39.2)	(40.2)	1.0			
Treasury stock purchased			(126.0)			(126.0)		
Treasury stock issued			11.3		(26.8)	38.1		
Foreign currency translation adjustments	21.5	(.2)	21.5				.2	21.3
Cash flow hedges, net of tax	.8		.8					.8
Defined benefit pension plans, net of tax	.3		.3					.3
Stock options and benefit plan transactions, net of tax			18.4		18.4			
Ending balance, March 31, 2011	$ 68.9	$ (1.5)	$ 1,457.8	$ 2,038.1	$ 457.8	$ (1,180.9)	$ 18.6	$ 124.2

	Three Months Ended March 31, 2010							
	Comprehensive Income (Loss) Attributable to Leggett & Platt, Inc. Before Noncontrolling Interest	Comprehensive Income (Loss) Attributable to Noncontrolling Interest	Total Equity	Retained Earnings	Common Stock & Additional Contributed Capital	Treasury Stock	Noncontrolling Interest	Accumulated Other Comprehensive Income
Beginning balance, January 1, 2010	$	$	$ 1,575.5	$ 2,013.3	$ 469.7	$ (1,033.8)	$ 21.5	$ 104.8
Net earnings	46.9		46.9	46.9				
(Earnings) loss attributable to noncontrolling interest, net of tax		(1.8)		(1.8)			1.8	
Dividends declared			(38.5)	(39.5)	1.0			
Dividends paid to noncontrolling interest			(1.7)				(1.7)	
Treasury stock purchased			(38.5)			(38.5)		
Treasury stock issued			13.0		(7.5)	20.5		
Foreign currency translation adjustments	(23.5)		(23.5)					(23.5)

Cash flow hedges, net of tax	(.4)		(.4)					(.4)
Defined benefit pension plans, net of tax	.5		.5					.5
Stock options and benefit plan transactions, net of tax			6.2		6.2			
Ending balance, March 31, 2010	$ 23.5	$ (1.8)	$ 1,539.5	$ 2,018.9	$ 469.4	$ (1,051.8)	$ 21.6	$ 81.4

11

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

10. STATEMENT OF CHANGES IN EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (continued)

The following tables set forth the components of and changes in each component of accumulated other comprehensive income (loss) for each of the periods presented:

	Foreign Currency Translation Adjustments	Cash Flow Hedges	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income (Loss)
Balance January 1, 2010	$ 147.2	$ .1	$ (42.5)	$ 104.8
Period change - gross	(23.5)	(.6)	.8	(23.3)
Period change - income tax effect		.2	(.3)	(.1)
Balance March 31, 2010	$ 123.7	$ (.3)	$ (42.0)	$ 81.4
Balance January 1, 2011	$ 151.1	$ 1.4	$ (50.7)	$ 101.8
Period change - gross	21.3	1.3	.5	23.1
Period change - income tax effect		(.5)	(.2)	(.7)
Balance March 31, 2011	$ 172.4	$ 2.2	$ (50.4)	$ 124.2

11. FAIR VALUE

Fair value measurements are established using a three level valuation hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following categories:

Level 1: Quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. Short-term investments in this category are valued using discounted cash flow techniques with all significant inputs derived from or corroborated by observable market data. Derivative assets and liabilities in this category are valued using models that consider various assumptions and information from market-corroborated sources. The models used are primarily industry-standard models that consider items such as quoted prices, market interest rate curves applicable to the instruments being valued as of the end of each period, discounted cash flows, volatility factors, current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3: Unobservable inputs that are not corroborated by market data.

Items measured at fair value on a recurring basis

	As of March 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents:				
Money market funds	$ 44.8	$	$	$ 44.8
Bank time deposits with original maturities of three months or less		33.2		33.2
Short-term investments:				
Bank time deposits with original maturities of greater than three months		22.9		22.9
Derivative assets		5.9		5.9
Total assets	$ 44.8	$ 62.0	$	$ 106.8
Liabilities:				
Derivative liabilities	$ .8	$ 1.5	$	$ 2.3
Total liabilities	$ .8	$ 1.5	$	$ 2.3

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

11. FAIR VALUE (continued)

	As of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$ 101.7	$	$	$ 101.7
Bank time deposits with original maturities of three months or less		38.1		38.1
Short-term investments:				
Bank time deposits with original maturities of greater than three months		22.8		22.8
Derivative assets		5.3		5.3
Total assets	$ 101.7	$ 66.2	$	$ 167.9
Liabilities:				
Derivative liabilities	$ 1.1	$ .2	$	$ 1.3
Total liabilities	$ 1.1	$ .2	$	$ 1.3

The fair value for fixed rate debt was greater than its $730.0 carrying value by $24.3 at March 31, 2011 and greater than its $730.0 carrying value by $6.0 at December 31, 2010.

Items measured at fair value on a non-recurring basis

The primary areas in which we use fair value measurements of non-financial assets and liabilities are allocating purchase price to the assets and liabilities of acquired companies and evaluating long-term assets for potential impairment.

Goodwill

We perform an annual review for potential goodwill impairment in June of each year and as triggering events occur. The goodwill impairment review performed in June 2010 indicated no goodwill impairments.

Fixed Assets

We test long-lived assets for recoverability at year-end and whenever events or changes in circumstances indicate the carrying value may not be recoverable. The table below summarizes fixed asset impairments for the periods presented.

	Three Months Ended March 31,	
	2011	2010
Continuing operations	$ 3.0	$ 1.4
Discontinued operations		.9
Total asset impairments	$ 3.0	$ 2.3

Fair value and the resulting impairment charges were based primarily upon offers from potential buyers or third party estimates of fair value less selling costs.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Strategy & Objectives

We are subject to market and financial risks related to interest rates, foreign currency, and commodities. In the normal course of business, we utilize derivative instruments (individually or in combinations) to manage these risks. We seek to use derivative contracts that qualify for hedge accounting treatment; however, some instruments may not qualify for this treatment. It is our policy not to speculate using derivative instruments.

We have recorded the following assets and liabilities representing the fair value for our most significant derivative financial instruments. The fair values of the derivatives reflect the change in the market value of the derivative from the date of the trade execution, and do not consider the offsetting underlying hedged item.

		As of March 31, 2011			
		Assets		Liabilities	
Derivatives designated as hedging instruments	**Total USD Equivalent Notional Amount**	**Other Current Assets**	**Sundry**	**Other Current Liabilities**	**Other Long-Term Liabilities**
Cash flow hedges:					
Commodity hedges	$ 5.9	$	$	$ .6	$ .2
Interest rate hedges	200.0		5.2		1.0
Currency Hedges:					
- Future USD sales of Canadian subsidiaries	4.8	.4			
- Future USD COGS of Canadian subsidiaries	7.6			.3	
- Future USD COGS of European subsidiary	2.1			.1	
Total cash flow hedges		.4	5.2	1.0	1.2
Fair value hedges:					
USD inter-company note receivable on a Canadian subsidiary	6.0	.1			
USD inter-company note receivable on an European subsidiary	3.5			.1	
Total fair value hedges		.1		.1	
Derivatives not designated as hedging instruments					
Hedge of EUR inter-company note receivable from a European subsidiary	28.0		.2		
		$ .5	$5.4	$ 1.1	$ 1.2

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Total USD Equivalent Notional Amount	As of December 31, 2010			
		Assets		Liabilities	
Derivatives designated as hedging instruments		**Other Current Assets**	**Sundry**	**Other Current Liabilities**	**Other Long-Term Liabilities**
Cash flow hedges:					
Commodity hedges	$ 7.3	$	$	$ .9	$ .2
Interest rate hedges	200.0		3.1		
Currency hedges:					
-Future USD cost of goods sold of Canadian subsidiaries	5.1			.1	
-Future USD sales of a Chinese subsidiary	3.0			.1	
-Future USD sales of Canadian subsidiaries	6.1	.4			
Total cash flow hedges		.4	3.1	1.1	.2
Fair value hedges:					
USD inter-company note receivable on a Canadian subsidiary	6.0	.1			
Total fair value hedges		.1			
Derivatives not designated as hedging instruments					
Hedge of EUR inter-company note receivable from a European subsidiary	28.0		1.7		
		$ .5	$ 4.8	$ 1.1	$ .2

Cash Flow Hedges

At March 31, 2011 and December 31, 2010, we had outstanding derivative financial instruments that hedged forecasted transactions and anticipated cash flows. The effective changes in fair value of unexpired contracts are recorded in accumulated other comprehensive income and reclassified to income or expense in the period in which earnings are impacted and are presented as operating cash flows when the contracts are settled.

Commodity Cash Flow Hedges

The commodity cash flow hedges manage natural gas commodity price risk. All commodity hedges at March 31, 2011 had maturities of less than two years. We routinely hedge commodity price risk up to 36 months.

Foreign Currency Cash Flow Hedges

The foreign currency hedges manage risk associated with exchange rate volatility of various currencies. The foreign currency cash flow hedges outstanding at March 31, 2011 and December 31, 2010 had maturity dates within one year. In general, foreign currency cash flow hedges have maturities within two years.

Interest Rate Cash Flow Hedges

In anticipation of long-term debt maturing in April 2013, we entered into forward starting interest swaps in 2010. The swap contracts manage benchmark interest rate risk associated with $200 of future debt issuance, and mature in August 2012. The swaps have a weighted average interest rate of 4.0% and hedge the benchmark rate of the future issuance of $200 of debt. The credit spread over the benchmark bonds will continue to fluctuate until the contracts are settled (either upon an issuance of debt or upon their expiration).

Fair Value Hedges

Our fair value hedges manage foreign currency risk associated with third party and subsidiaries   inter-company assets and liabilities. Hedges designated as fair value hedges recognize gain or loss currently in earnings and are presented as operating cash flows when the contracts are settled. These fair value hedges generally have a maturity date within one year.

LEGGETT & PLATT, INCORPORATED

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

12. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Hedge Effectiveness

We have determined all ineffectiveness to be immaterial, and as a result, have not recorded any amounts for ineffectiveness. If a hedge was not highly effective, the portion of the change in fair value considered to be ineffective would be recognized immediately in the consolidated condensed statements of operations.

Derivatives Not Designated as Hedging Instruments

At March 31, 2011 and December 31, 2010, we had one derivative transaction that did not qualify for hedge accounting treatment. Gains or losses on this transaction are recorded directly to income and expense in the period impacted, and economically offset the gains or losses on the underlying Euro inter-company debt.

The following table sets forth the pre-tax gains (losses) from continuing operations for our hedging activities for the periods presented. This schedule includes reclassifications from accumulated other comprehensive income as well as derivative settlements recorded directly to income or expense.

		Amount of Gain (Loss) Recorded in Income Three Months Ended March 31	
Derivatives designated as hedging instruments	**Income Statement Caption**	**2011**	**2010**
Commodity cash flow hedges	Cost of goods sold	$ (.4)	$ (.2)
Foreign currency cash flow hedges	Net Sales	.1	.1
Total cash flow hedges		(.3)	(.1)
Fair value hedges	Other expense (income), net	0.0	.4
Derivatives not designated as hedging instruments			
Hedge of EUR inter-company note receivable- European subsidiary	Other expense (income), net	(1.5)	2.7
Hedge of EUR inter-company note receivable- European subsidiary	Interest expense	(.1)	0.0
Total derivative instruments		$ (1.9)	$ 3.0

13. CONTINGENCIES

We are a defendant in various proceedings involving employment, intellectual property, environmental, taxation and other laws. When it is probable, in management s judgment, that we may incur monetary damages or other costs resulting from these proceedings or other claims, and we can reasonably estimate the amounts, we record appropriate liabilities in the financial statements and make charges against earnings. For all periods presented, we have recorded no material charges against earnings, and the total liabilities recorded are not material to our financial position.

NPI Lawsuit

On January 18, 2008, National Products, Inc. (NPI) sued Gamber-Johnson, LLC (Gamber), our wholly-owned subsidiary, in Case C08-0049C-JLR, in the United States District Court, Western District of Washington, alleging that portions of a Gamber marketing video contained false and misleading statements. NPI and Gamber compete in the market for vehicle computer mounting systems. NPI sought: (a) injunctive relief requiring Gamber to stop using the video and to notify customers; (b) damargin: 0; text-indent: 0.5in"> Net cash generated from financing activities decreased from approximately $5,607,000 in the fiscal year ended March 31, 2016 to approximately $3,506,000 in the fiscal year ended March 31, 2017. In fiscal 2017, we raised approximately $2,759,000 from the issuance of common stock and approximately $577,000 from the issuance of convertible notes. That source of cash from our financing activities was partially offset by the use of approximately $379,000 to pay for the tax withholding on restricted stock units. The net cash provided by financing activities in fiscal 2016 was all from the issuance of common stock.

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

50

Current Events

In April 2017, we agreed with two individual investors to exchange 11,497 restricted shares for the cancellation of 22,993 warrants.

In April 2017, we issued 15,000 shares of restricted common stock at a price of $2.24 per share in payment for digital communications consulting services valued at $33,600 based on the value of the services provided.

In April 2017, 46,125 RSUs held by our executives were exchanged into the same number of shares of our common stock. As our executives elected to return a portion of their RSU's in exchange for the Company paying the related withholding taxes on the share issuance, 23,655 of the RSUs were cancelled and we issued a net 22,470 shares to our executives.

In April 2017, we terminated a previously recorded but unissued share award of 68,000 shares under a restricted stock grant to our CEO and issued to him 32,674 shares as a net settlement of shares and the Company paid the withholding taxes associated with that share issuance in return for the cancellation of 35,326 shares. The compensation cost of that restricted stock grant had been fully recorded over prior fiscal years, therefore no expense was recorded regarding this net issuance.

In the period since March 31, 2017, sold 1,000 shares of common stock under our Common Stock Sales Agreement with H.C. Wainwright. We raised aggregate net proceeds of $1,903 (net of $63 in commissions to H.C. Wainwright and $133 in other offering expenses) under this agreement at an average price of $1.90 per share of net proceeds.

In June 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.

In June 2017, 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. Additionally, we agreed with those investors that they would extend the expiration dates of 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.

Critical Accounting Policies

Use of Estimates

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

Fair Value Measurements

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

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

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

The fair value of derivative liabilities was determined based on unobservable inputs that are not corroborated by market data, which is a Level 3 classification. We recorded derivative liabilities on our balance sheet at fair value with changes in fair value recorded in our consolidated statements of operations. At March 31, 2017, we had no derivative liabilities.

Revenue Recognition

With respect to revenue recognition, we entered into a government contract with DARPA and have recognized revenue during the fiscal years ended March 31, 2017 and 2016 of $387,438 and $863,011, respectively, under such contract. We adopted the Milestone method of revenue recognition for the DARPA contract under Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 605-28 "Revenue Recognition – Milestone Method" and we believe we meet the requirements under ASC 605-28 for reporting contract revenue under the Milestone Method for the fiscal years ended March 31, 2017 and 2016.

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

Stock Purchase Warrants

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

Beneficial Conversion Feature of Notes Payable

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

Share-based Compensation

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

Derivative Instruments

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

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

Instruments classified as derivative liabilities are remeasured each reporting period (or upon reclassification) and the change in fair value is recorded on our consolidated statement of operations in other expense (income). We had no derivative instruments at March 31, 2017 and at March 31, 2016.

Income Taxes

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

Off-Balance Sheet Arrangements

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

Convertible Notes Payable and Warrants

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.

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". 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 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. 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.

March 2017 Registered Direct Offering

On March 22, 2017, we entered into a Securities Purchase Agreement (the “Purchase Agreement”) with certain institutional investors (the “Investors”) for the sale of 575,000 shares of our common stock, par value $0.001 per share (the “Common Stock”), at a purchase price of $3.50 per share, in a registered direct offering. Concurrently with the sale of the Common Shares, pursuant to the Purchase Agreement, we also sold in a private placement warrants to purchase 575,000 shares of Common Stock (the “Warrants”). The aggregate gross proceeds for the sale of the Common Shares and Warrants will be approximately $2 million. Subject to certain ownership limitations, the Warrants will be initially exercisable commencing six months from the issuance date at an exercise price equal to $3.95 per share of Common Stock, subject to adjustments as provided under the terms of the Warrants. The Warrants will be exercisable for five years from the initial exercise date.

The net proceeds to us from the transactions, after deducting the placement agent’s fees and expenses (not including the Wainwright Warrants, as defined below), our estimated offering expenses, and excluding the proceeds, if any, from the exercise of the Warrants, were $1,804,250. We intend to use the net proceeds from the transactions for general corporate purposes.

The Common Shares (but not the Warrants or shares issuable upon exercise of the Warrant) were sold by us pursuant to an effective shelf registration statement on Form S-3, which was filed with the Securities and Exchange Commission (the “SEC”) on May 5, 2016 and subsequently declared effective on May 12, 2016 (File No. 333-211151) (the “Registration Statement”), and the base prospectus dated as of May 12, 2016 contained therein. We filed a prospectus supplement and the accompanying prospectus with the SEC in connection with this sale of the Common Shares.

We also reduced the dollar amount of our current at the market offering to $9,532,294 as a result of this offering and prior sales under the at the market offering.

The purchase agreement also covered the exchange of 264,000 warrants issued to the purchasers thereunder in December 2014 for 198,000 shares of our common stock. Further, in exchange for certain waivers given by the purchasers and certain other investors in a private placement of the Company in June 2015, the warrants issued in such private placement were amended to (i) reduce the exercise price to $3.95 per share, (ii) make the warrants non-exercisable for a period of six months from the date of amendment, and (iii) extend the term of those warrants by six months.

The Warrants and the shares issuable upon exercise of the Warrants were sold and issued without registration under the Securities Act of 1933 (the “Securities Act”) in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act as transactions not involving a public offering and Rule 506 promulgated under the Securities Act as sales to accredited investors, and in reliance on similar exemptions under applicable state laws.

We also entered into an engagement letter (the “Engagement Letter”) with Rodman & Renshaw, a unit of H.C. Wainwright & Co., LLC (“Rodman”), pursuant to which Rodman agreed to serve as exclusive placement agent for the issuance and sale of the Common Shares and Warrants. We paid Rodman an aggregate fee equal to 6% of the gross proceeds received by us from the sale of the securities in the transactions. Pursuant to the Engagement Letter, we also agreed to grant to Rodman or its designees warrants to purchase up to 3% of the aggregate number of shares sold in the transaction (the “Rodman Warrants”). The Engagement Letter has a nine month tail and right of first offer periods, indemnity and other customary provisions for transactions of this nature. The Rodman Warrants have substantially the same terms as the Warrants, except that the exercise price is 125% of $3.50. The Rodman Warrants and the shares issuable upon exercise of the Rodman Warrants were issued in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act as transactions not involving a public offering and in reliance on similar exemptions under applicable state laws. We also paid Rodman a reimbursement for non-accountable expenses in the amount of $50,000.

Securities Issued for Debt

Historically, we have issued securities for debt to reduce our obligations to avoid using our cash resources. In the fiscal year ended March 31, 2017 we issued 33,091 unregistered common shares for repayment in full of notes, including accrued interest, in the aggregate amount of $144,718. In the fiscal year ended March 31, 2016 we did not issue any securities for debt. The average price discount of the common stock issued for debt in the fiscal year ended March 31, 2017 was approximately 13%.

FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2017 AND 2016 RESPECTIVELY

Overview

Aethlon Medical, Inc. and subsidiary (collectively, “Aethlon”, the “Company”, “we” or “us”) are 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.”

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 DECEMBER 31, 2017 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2016

Revenues

We recorded any $74,813 of government contract revenue in the three months ended December 31, 2017 and we did not record any government contract revenue in the three months ended December 31, 2016. That revenue arose from work performed under our government contract with the National Institutes of Health, or NIH, as follows:

	Three Months Ended 12/31/17	Three Months Ended 12/31/16	Change in Dollars
NIH Contract	$ 74,813	$ –	$ 74,813
Total Government Contract Revenue	$ 74,813	$ –	$ 74,813

NIH Contract

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 December 31, 2017, we completed the first milestone on this contract and invoiced NIH for the $74,812.50 payment associated with that milestone.

Operating Expenses

Consolidated operating expenses for the three months ended December 31, 2017 were $1,238,440 in comparison with $1,235,546 for the comparable period a year ago. This increase of $2,894, or 0.2%, was due to an increase in payroll and related expenses of $27,547, a $22,251 increase in professional fees and a $46,904 decrease in general and administrative expenses.

The $27,547 increase in payroll and related expenses was due to a $17,003 increase in stock-based compensation and to a $10,545 increase in our cash-based payroll and related expenses due to bonuses given to our support and scientific staff.

The $22,251 increase in our professional fees was due to an increase in our professional fees of $37,962, which was partially offset by a decrease in our professional fees at ESI of $15,711. The $37,962 decrease in our professional fees was due to a $62,864 increase in our legal fees, a $22,022 increase in our investor relations fees, a $14,069 increase in our accounting fees, a $7,358 increase in our marketing expenses, and a $6,100 increase in our directors' fees due to an increase in our Board of Directors, which were partially offset by a $51,548 decrease in our scientific consulting expenses and a $25,000 decrease in business development expenses.

The $46,904 decrease in general and administrative expenses was primarily due to a $34,324 decrease in our clinical trial expenses, a $6,519 decrease in the cost of our lab supplies and a $4,743 refund on previous state franchise tax payments.

Other Expense

Other expense during the three months ended December 31, 2017 and 2016 consisted of interest expense and a gain on debt extinguishment. Other expense for the three months ended December 31, 2017 was other expense of $55,912 in comparison with other income of $22,126 for the three months ended December 31, 2016.

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

	Three Months Ended 12/31/17	Three Months Ended 12/31/16	Change
Gain on Debt Extinguishment	$ –	$ (58,691)	$ 58,691
Interest Expense	55,912	36,565	19,347
Total Other Expense (Income)	$ 55,912	$ (22,126)	$ 78,038

Interest Expense

Interest expense was $55,912 for the three months ended December 31, 2017 compared to $36,565 in the corresponding prior period, an increase of $19,347. The various components of our interest expense are shown in the following table:

	Three Months Ended 12/31/17	Three Months Ended 12/31/16	Change
Interest Expense	$ 25,625	$ 17,567	$ 8,058
Amortization of Note Discounts	30,287	18,998	11,289
Total Interest Expense	$ 55,912	$ 36,565	$ 19,347

As noted in the above table, the factors in the $19,347 increase in interest expense were the $8,058 increase in our contractual interest expense and the $11,289 increase in the amortization of note discounts, which related to the amortization against the discount on our convertible notes.

Net Loss

As a result of the changes in revenues and expenses noted above, our net loss before noncontrolling interests increased from approximately $1,213,000 in the three month period ended December 31, 2016 to $1,220,000 in the three month period ended December 31, 2017.

Basic and diluted loss attributable to common stockholders were ($0.08) for the three month period ended December 31, 2017 compared to ($0.15) for the period ended December 31, 2016.

NINE MONTHS ENDED DECEMBER 31, 2017 COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2016

Revenues

We recorded government contract revenue of $74,813 in the nine months ended December 31, 2017 and we recorded government contract revenue of $392,073 in the nine months ended December 31, 2016. This revenue arose from work performed under our government contracts with the National Institutes of Health, or NIH, with the Defense Advanced Research Projects Agency, or DARPA, and our government subcontract with Battelle Memorial Institute as follows:

	Nine Months Ended 12/31/17	Nine Months Ended 12/31/16	Change in Dollars
NIH Contract	$ 74,813	$ –	$ 74,813
DARPA Contract	–	387,438	(387,438)
Battelle Subcontract	–	4,635	(4,635)
Total Government Contract Revenue	$ 74,813	$ 392,073	$ (317,260)

58

NIH Contract

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 nine months ended December 31, 2017, we completed the first milestone on this contract and invoiced NIH for the $74,812.50 payment associated with that milestone.

DARPA Contract & Battelle Subcontract

Previously, we generated contract revenue under a contract with DARPA that we entered into on September 30, 2011. Under the DARPA award, we were engaged to develop a therapeutic device to reduce the incidence of sepsis, a fatal bloodstream infection that often results in the death of combat-injured soldiers. That contract was completed on September 30, 2016 and the related subcontract with Battelle was completed in March 2017. In the nine months ended December 31, 2016, we invoiced the U.S. Government for the final two milestones under our DARPA contract in the aggregate amount of $387,438.

Operating Expenses

Consolidated operating expenses for the nine months ended December 31, 2017 were $3,634,862 in comparison with $4,986,148 for the comparable period a year ago. This decrease of $1,351,286, or 27.1%, was due to a decrease in payroll and related expenses of $882,335, a decrease in professional fees of $330,279 and a $138,672 decrease in general and administrative expenses.

The $882,335 decrease in payroll and related expenses was primarily due to a $992,543 decrease in stock-based compensation. The decrease in stock-based compensation was due to the upfront vesting percentage of the RSU grants to our officers and directors in August 2016. Our cash-based payroll and related expenses increased by $110,208 due to headcount additions in our scientific staff.

The $330,279 decrease in our professional fees was due to decreases in our non-DARPA-related professional fees of $263,328, in our DARPA-related professional fees of $38,928 and in our professional fees at ESI of $28,023. The $263,328 decrease in our non-DARPA-related professional fees was due to a $124,941 decrease in our legal fees, a $123,859 decrease in scientific consulting expenses, and a $110,000 decrease in business development expenses which were partially offset by a $64,949 increase in marketing expenses, a $17,014 increase in website service expense and a $5,732 increase in investor relations expenses.

The $138,672 decrease in general and administrative expenses was primarily due to decreases of $101,757 in our DARPA-related general and administrative expenses and $22,224 in the general and administrative expenses at ESI.

Other Expense

Other expense during the nine months ended December 31, 2017 and 2016 consisted of losses on debt extinguishment, warrant repricing expense, losses on share for warrant exchanges and interest expense. Other expense for the nine months ended December 31, 2017 was other expense of $813,618 in comparison with other expense of $1,019,347 for the nine months ended December 31, 2016.

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

	Nine Months Ended 12/31/17	Nine Months Ended 12/31/16	Change
Loss on Debt Extinguishment	$ 376,909	$ 558,198	$ (181,289)
Loss on Warrant Repricing	–	345,841	(345,841)

Loss on Share for Warrant Exchanges	130,214	–	130,214
Interest Expense	306,495	115,308	191,187
Total Other Expense	$ 813,618	$ 1,019,347	$ (205,729)

59

Loss on Debt Extinguishment

Our loss on debt extinguishment for the nine months ended December 31, 2017 arose from a $376,909 loss associated with the June 2017 amendments to our convertible notes. This compared to a loss of debt extinguishment of $558,198 for the nine months ended December 31, 2016 - see below for additional information.

June 2017 Amendments – The $376,909 loss on debt extinguishment in the six months ended September 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.

June 2016 Amendments - This loss on debt extinguishment arose from the Amendments (the "Amendments") to our November 2014 convertible notes The Amendments provided that the maturity date of the notes was extended from June 1, 2016 to July 1, 2017 and that the conversion price 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 of warrants issued in connection with the notes from $8.40 per share to $5.00 per share. 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 described in the liquidity and capital resources section of this report below. This loss also included an $80,000 fee to extend the November 2014 convertible notes from June 1, 2016 to July 1, 2017. The $80,000 amount was not a cash payment but rather was added to the principal of the notes.

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 Warrant Repricing

On June 27, 2016, we and certain investors (the “Unit Investors”) entered into Consent and Waiver and Amendment agreements (the “CWAs”), relating to an aggregate of 264,000 Warrants to Purchase Common Stock (the “Unit Warrants”) we had issued to the Unit Investors on December 2, 2014 pursuant to a Securities Purchase Agreement dated November 26, 2014 (the “2014 SPA”). In the CWAs, each of the Unit Investors provided its consent under certain restrictive provisions, and waived certain rights, including a right to participate in certain offerings made by us, under the 2014 SPA in order to facilitate the at-the-market equity program described in the notes to the Financial Statements. Pursuant to the CWAs, we reduced the Exercise Price (as defined in the Unit Warrants) from $15.00 per share of common stock to $5.00 per share of common stock.

On June 27, 2016, each of the Unit Investors also entered into a Consent and Waiver providing its consent under certain provisions, and waiving certain rights, including a right to participate in certain offerings made by us, under the 2015 SPA in order to facilitate the at-the market equity program described in the notes to the Financial Statements.

We measured the change in fair value that arose from the reduction in exercise price from $15.00 to $5.00 and recorded a charge of $345,841 to our other expense to reflect this change.

Loss on Share for Warrant Exchanges

During the nine months ended December 31, 2017, we agreed with two individual investors to exchange 11,497 restricted shares for the cancellation of 22,993 warrants and 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. Additionally, we entered into an agreement with a former placement agent to issue 5,500 restricted shares in exchange for the cancellation of 11,000 warrants held by that placement agent. 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.

Interest Expense

Interest expense was $306,495 for the nine months ended December 31, 2017 compared to $115,308 in the corresponding prior period, an increase of $191,187. The various components of our interest expense are shown in the following table:

	Nine Months Ended 12/31/17	Nine Months Ended 12/31/16	Change
Interest Expense	$ 91,119	$ 49,671	$ 41,448
Amortization of Deferred Financing Costs	–	27,641	(27,641)
Amortization of Note Discounts	215,376	37,996	177,380
Total Interest Expense	$ 306,495	$ 115,308	$ 191,187

As noted in the above table, the most significant factor in the $191,187 increase in interest expense was the $177,380 increase in the amortization of note discounts, which related to the amortization against the discount on our convertible notes. Other smaller factors in the change in our total interest were a $27,641 decrease in the amortization of deferred financing costs and a $41,448 increase 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 $5,613,000 in the nine month period ended December 31, 2016 to $4,374,000 in the nine month period ended December 31, 2017.

Basic and diluted loss attributable to common stockholders were ($0.40) for the nine month period ended December 31, 2017 compared to ($0.72) for the period ended December 31, 2016.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2017, we had a cash balance of $5,610,799 and working capital of $5,288,930. This compares to a cash balance of $1,559,701 and working capital of $985,496 at March 31, 2017.

On October 4, 2017, we consummated a public offering of 5,454,546 shares of common stock and warrants to purchase 5,454,546 shares of common stock, for total gross proceeds of $6.0 million. The offering was priced at $1.10 per unit with each unit comprised of one share of common stock and one common stock purchase warrant. The warrants carry a five-year term with an exercise price of $1.10 per share. The net proceeds of the offering were $5,289,735. H.C. Wainwright & Co. acted as exclusive placement agent for the offering. We expect the net proceeds from that offering coupled with cash on hand will finance our operations for the twelve month period from the date of this report.

In December 2017, four investors in the October 2017 Public Offering exercised 218,600 warrants through the payment of an aggregate of $240,460 before expenses to us.

Subsequent to December 31, 2017, sixteen investors that participated in the October 2017 Public Offering exercised 852,700 warrants for aggregate cash proceeds to us of $937,970 before expenses.

Also subsequent to December 31, 2017, we sold common stock under our Common Stock Sales Agreement with H.C. Wainwright (see Note 6) and from those sales raised net proceeds of $454,654 (after deducting $14,123 in commissions to H.C. Wainwright and $1,998 in other offering expenses) utilizing the sales agreement through the sale of 340,000 shares at an average price of $1.34 per share of net proceeds.

We will require significant additional financing beyond the 12 month period subsequent to the filing date of this Form 10-Q to fund the expected additional future clinical trials of our product in the U.S., as well as fund all of our continued research and development activities for the Hemopurifier. In addition, as we expand our activities, our overhead costs to support personnel, laboratory materials and infrastructure will increase. Should the financing we require to sustain our working capital needs be unavailable to us on reasonable terms, if at all, when we require it, we may be unable to support our research and FDA clearance activities including our planned clinical trials. The failure to implement our research and clearance activities would have a material adverse effect on our ability to commercialize our products and to remain as a going concern.

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, any continued delays in completing our clinical trials, 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.

Management expects existing cash as of December 31, 2017 to be sufficient to fund the Company's operations for at least twelve months from the issuance date of these interim financial statements.

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 nine months ended December 31, 2017	December 31, 2016
Cash provided by (used in):		
Operating activities	$ (2,893)	$ (2,644)
Investing activities	(24)	(3)
Financing activities	6,968	1,060
Net increase (decrease) in cash	$ 4,051	$ (1,587)

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 $2,893,000 in the nine months ended December 31, 2017 compared to $2,644,000 in the nine months ended December 31, 2016, an increase of $249,000.

NET CASH USED IN INVESTING ACTIVITIES. We used approximately $24,000 of cash to purchase laboratory and office equipment in the nine months ended December 31, 2017 compared to approximately $3,000 in the nine months ended December 31, 2016.

NET CASH PROVIDED BY FINANCING ACTIVITIES. In the nine months ended December 31, 2017 we generated approximately $6,968,000 from our financing activities primarily through the issuance of common stock, an increase of $5,908,000 over the $1,060,000 raised in the nine months ended December 31, 2016.

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, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of February 15, 2018, with respect to the ownership of our common stock, by (i) each person known by us to be the beneficial owner of more than five percent (5%) of the outstanding shares of each class of our capital stock, (ii) each of our directors and director nominees (if any), (iii) each of our named executive officers and (iv) all of our current executive officers and directors as a group. As of such date, we had 8,886,071 shares of our common stock issued and outstanding. The term "executive officer" is defined as the President/Chief Executive Officer, Secretary, Chief Financial Officer/Treasurer, any vice-president in charge of a principal business function (such as administration or finance), or any other person who performs similar policy making functions for us. We believe that each individual or entity named has sole investment and voting power with respect to shares of common stock indicated as beneficially owned by them, subject to community property laws where applicable, excepted where otherwise noted:

NAME AND ADDRESS	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1) (2)	PERCENT OF BENEFICIAL OWNERSHIP
James A. Joyce, Chief Executive Officer and Director 9635 Granite Ridge Drive, Suite 100 San Diego, CA 92123	392,076 shares (3)	2.32%
Rodney S. Kenley, President and Director 9635 Granite Ridge Drive, Suite 100 San Diego, CA 92123	52,193 shares (4)	*
James B. Frakes, Chief Financial Officer 9635 Granite Ridge Drive, Suite 100 San Diego, CA 92123	40,048 shares (5)	*
Charles J. Fisher, Jr., MD, Chairman and Director 9635 Granite Ridge Drive, Suite 100, San Diego, CA 92123	31,914 shares (6)	*
Edward G. Broenniman, Director 9635 Granite Ridge Drive, Suite 100 San Diego, CA 92123	80,655 shares (7)	*
Chetan Shah, MD, Director 9635 Granite Ridge Drive, Suite 100 San Diego, CA 92123	442,862 shares (8)	2.63%
Sabrina Martucci Johnson, Director 9635 Granite Ridge Drive, Suite 100 San Diego, CA 92123	40,650 (9)	*
Intracoastal Capital, LLC (11) 245 Palm Trail Delray Beach, Florida 33483	909,090 warrants (10)	5.16%
Sachs Investment Group, LLC (11) 1346 S. Third St., Louisville, KY 40208	1,908,113 shares	11.42%

All Current Directors and Executive Officers as a Group (7 members)	1,134,641 shares	6.58%

---

* Less than 1%

(1) Based on 16,705,326 shares of common stock outstanding on our transfer records as of February 15, 2018

63

(2) Calculated pursuant to Rule 13d-3(d)(1) of the Securities Exchange Act of 1934. Under Rule 13d-3(d)(1), shares not outstanding that are subject to options, warrants, rights or conversion privileges exercisable by a person within 60 days are deemed outstanding for the purpose of calculating the number and percentage owned by such person but not deemed outstanding for the purpose of calculating the percentage owned by each other person listed. Except where otherwise noted, we believe that each individual or entity named has sole investment and voting power with respect to the shares of common stock indicated as beneficially owned by such person, subject to community property laws, where applicable.

(3) Includes 90,000 stock options exercisable at $12.50 per share, 40,000 stock options exercisable at $5.00 per share and 30,000 stock options exercisable at $9.50 per share. Also includes shares underlying 19,079 restricted stock units that will vest and issue within 60 days of February 15, 2018.

(4) Includes 20,000 stock options exercisable at $12.50 per share, 10,000 stock options exercisable at $5.00 per share and 5,000 stock options exercisable at $9.50 per share. Also includes shares underlying 1,596 restricted stock units that will vest and issue within 60 days of February 15, 2018.

(5) Includes 10,000 stock options exercisable at $12.50 per share, 10,000 stock options exercisable at $5.00 per share and 5,000 stock options exercisable at $9.50 per share. Also includes shares underlying 1,393 restricted stock units that will vest and issue within 60 days of February 15, 2018.

(6) Includes shares underlying 15,957 restricted stock units which vest within 60 days of February 15, 2018.

(7) Includes 10,000 stock options exercisable at $20.50 per share, 12,000 stock options exercisable at $12.50 per share, 9,211 stock options exercisable at $3.80 per share, 8,537 stock options exercisable at $4.10 per share and 3,684 stock options exercisable at $9.50 per share. Also includes shares underlying 18,617 restricted stock units that will vest and issue within 60 days of February 15, 2018.

(8) Includes warrants to purchase 109,322 shares of common stock at exercise prices ranging from $4.65 per share to $6.60 per share, 7,521 stock options exercisable at $4.10 per share and 3,684 stock options exercisable at $9.50 per share, and 18,617 shares underlying restricted stock units that will vest and issue within 60 days of February 15, 2018.

(9) Includes shares underlying 40,650 restricted stock units which vest within 60 days of February 15, 2018.

(10) Includes shares of stock issued to Intracoastal as the result of an October 2, 2017 purchase of common stock and warrants of the issuer by Intracoastal. The foregoing excludes 824,721 shares of Common Stock issuable upon exercise of the Intracoastal Warrant because the Intracoastal Warrant contains a blocker provision under which

the holder thereof does not have the right to exercise the Intracoastal Warrant to the extent that such exercise would result in beneficial ownership by the holder thereof, together with the holder's affiliates and any other persons acting as a group together with the holder or any of the holder's affiliates, of more than 9.99% of the Common Stock. Mitchell P. Kopin ("Mr. Kopin") and Daniel B. Asher ("Mr. Asher"), each of whom are managers of Intracoastal Capital LLC ("Intracoastal"), have shared voting control and investment discretion over the securities reported herein that are held by Intracoastal. As a result, each of Mr. Kopin and Mr. Asher may be deemed to have beneficial ownership (as determined under Section 13(d) of the Exchange Act of the securities reported herein that are held by Intracoastal. Mr. Asher, who is a manager of Intracoastal, is also a control person of a broker-dealer. As a result of such common control, Intracoastal may be deemed to be an affiliate of a broker-dealer. Intracoastal acquired the Common Stock being registered hereunder in the ordinary course of business, and at the time of the acquisition of the Common Stock and Warrants described herein,Intracoastal did not have any arrangements or understandings with any person to distribute such securities.

(11) More-than-5% stockholder.

* Less than 1%

64

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The following describes all transactions since April 1, 2015, and all proposed transactions, in which we were or are to be a participant and the amount involved exceeds the lesser of $120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years, and in which any related person had or will have a direct or indirect material interest.

In June 2015, Mr. James Joyce, our Chief Executive Officer, Mr. James Frakes, our Chief Financial Officer and Dr. Chetan Shah, a director of our company, agreed to waive their rights to acquire an aggregate of 402,318 shares of common stock underlying certain stock options and warrants held by them. Those waivers were required in order to make a sufficient number of shares of common stock available for issuance upon the exercise of the warrants issued in our June 2015 financing. Those waivers expired when we amended our Articles of Incorporation on March 31, 2016, to increase sufficiently the number of authorized shares of common stock available for issuance following approval of that measure at our annual stockholders' meeting on March 29, 2016.

In September 2015, the Compensation Committee approved and we paid bonuses of $100,000 and $75,000 to Mr. Joyce and Mr. Frakes, respectively, for achieving an agreed milestone event of achieving a Nasdaq listing.

Retention Agreements

On October 16, 2015, following a recommendation of our Compensation Committee, we approved retention bonus grants to three of our executive officers under a newly established Aethlon Senior Management Retention Program to maintain management stability going forward. The Board approved a $100,000 retention bonus for Mr. James A. Joyce, our Chief Executive Officer, a $50,000 retention bonus for Mr. Rodney S. Kenley, our President, and a $50,000 retention bonus for Mr. James B. Frakes, our Chief Financial Officer.

In connection with the bonus granted to Mr. Joyce, we entered into an amendment of Mr. Joyce's Employment Agreement dated April 1, 1999. Pursuant to the amendment, if within two years of the effective date of the amendment, we terminate Mr. Joyce's employment with us for "Cause" (as defined in his employment agreement) or Mr. Joyce terminates his employment with us other than for "Good Reason" (as defined in his employment agreement), Mr. Joyce must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for "Cause" or termination by Mr. Joyce for "Good Reason," Mr. Joyce will not be required to repay any portion of the bonus received by him.

In connection with the bonus granted to Mr. Kenley, we entered into an amendment of Mr. Kenley’s Offer Letter dated October 27, 2010. Pursuant to the amendment, if within two years of the effective date of the amendment, we terminate Mr. Kenley’s employment with us for “Cause” (as defined in the amendment) or Mr. Kenley terminates his employment with us other than for “Good Reason” (as defined in the amendment), Mr. Kenley must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for “Cause” or termination by Mr. Kenley for “Good Reason,” Mr. Kenley will not be required to repay any portion of the bonus received by him.

In connection with the bonus granted to Mr. Frakes, we entered into a Retention Bonus Agreement with Mr. Frakes. Pursuant to the agreement, if within two years of the effective date of the agreement, we terminate Mr. Frakes’ employment with us for “Cause” (as defined in the agreement) or Mr. Frakes terminates his employment with us other than for “Good Reason” (as defined in the agreement), Mr. Frakes must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for “Cause” or termination by Mr. Frakes for “Good Reason,” Mr. Frakes will not be required to repay any portion of the bonus received by him.

Other Transactions

Mr. Joyce received aggregate bonus payments of $60,000 from Exosome throughout the fiscal years ended March 31, 2017 and March 31, 2016 per targets set by the Compensation Committee.

Director Independence

Mr. Broenniman and Dr. Shah are independent directors as that term is defined by NASDAQ Stock Market Rule 5605(a)(2). We currently have a compensation committee, a nominating and corporate governance committee and an audit committee. Of the members of our Board of Directors, Mr. Broenniman and Dr. Shah both meet the NASDAQ Stock Market's independence standards for members of such committees.

DESCRIPTION OF CAPITAL STOCK

General

Our authorized capital consists of 10,000,000 shares of common stock, par value $0.001 per share. As of July 28, 2017, there were issued and outstanding 8,886,071 of common stock.

Common Shares

The holders of our common stock are entitled to one vote (or consent) per share on all matters to be voted on by the stockholders. Holders of common stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. If we liquidate, dissolve or wind up, holders of common stock are entitled to share ratably in all assets remaining after payment of all debts and other liabilities. Holders of common stock have no preemptive, conversion or subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are, and all shares of common stock to be outstanding upon completion of this offering will be, validly issued, fully paid and nonassessable.

Except as otherwise required by Nevada law, all stockholder action is taken by the vote of a majority of common stock voting as a single class present at a meeting of stockholders at which a quorum consisting of a majority of the outstanding shares of common stock is present in person or proxy.

Options and Warrants Convertible into Common Shares

As of March 31, 2017, there were outstanding common share purchase options entitling the holders to purchase 432,047 common shares at a weighted average exercise price of $10.98 per share and warrants entitling the holders to purchase up to 2,604,096 common shares at a weighted average exercise price of $3.64 per share.

DIRECTORS AND EXECUTIVE OFFICERS

The names, ages and positions of our directors and executive officers as of December 19, 2018 are listed below:

NAMES	TITLE OR POSITION	AGE
James A. Joyce (1)	Chairman, Chief Executive Officer and Secretary	55
Rodney S. Kenley (2)	President and Director	67
James B. Frakes (3)	Chief Financial Officer and Senior Vice President - Finance	60
Edward G. Broenniman	Director	80
Chetan S. Shah, MD	Director	48
Charles J. Fisher, Jr., MD	Director and Chairman of the Board	70
Sabrina Martucci Johnson	Director	50

(1) Effective June 1, 2001, Mr. Joyce was appointed our President and Chief Executive Officer, replacing Mr. Barry, who served as a member of the Board of Directors until March 30, 2017. Mr. Joyce resigned from the position of President upon the appointment of Mr. Kenley to such position on October 27, 2010.

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

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

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

James A. Joyce, Chairman, CEO and Secretary

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

Rodney S. Kenley, President and Director

Mr. Kenley has been President and a Director since October 2010. He has 38 years of experience in healthcare, most of which have been spent in the extracorporeal blood purification arena. Mr. Kenley held several positions at Baxter Healthcare (Travenol) from 1977 through 1990 including International Marketing Manager, Business Unit Manager for Peritoneal and Hemodialysis products, Manager of New Business Development, Director of Worldwide Product Planning, Director of Advanced Product Development, and VP of Electronic Drug Infusion. Mr. Kenley founded Aksys Ltd. in January 1991 to develop and commercialize his concept of a daily home hemodialysis system which was commercially launched in 2002 as the PHD system. In 2004, Mr. Kenley initiated the development of a second-generation home hemodialysis system in partnership with DEKA Research & Development Corporation in Manchester, New Hampshire. In 2007, the assets of Aksys Ltd. were acquired by DEKA, where Mr. Kenley was employed prior to joining Aethlon Medical, Inc. Mr. Kenley received his Bachelor of Arts degree in Biology and Chemistry from Wabash College, a Master's of Science degree in Molecular Biology from Northwestern University and a Masters of Management from the Kellogg School of Management, also at Northwestern University. We believe that Mr. Kenley is qualified to serve as our director as a result of his experience in developing extracorporeal blood purification products.

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

Mr. Frakes joined Aethlon Medical, Inc. in January 2008 and brought 16 consecutive years of financial responsibility for publicly traded companies, as well as specific knowledge and experience in equity and debt transactions, acquisitions, public reporting and Sarbanes-Oxley Section 404 internal control requirements. Mr. Frakes also serves as the Chief Financial Officer of Exosome Sciences, Inc. He previously served as the CFO for Left Behind Games Inc., a start-up video game company. Prior to 2006, he served as CFO of NTN Buzztime, Inc., an interactive entertainment company. Mr. Frakes received an MBA from the University of Southern California and completed his BA with

Honors at Stanford University.

Edward G. Broenniman, Director

Mr. Broenniman became a director of Aethlon Medical, Inc. in March 1999. He has been the Managing Director of The Piedmont Group, LLC, a venture advisory firm, since 1978. Mr. Broenniman recently served on the Board of Directors of publicly traded QuesTech (acquired by CACI International), and currently serves on the Boards of two privately held firms. His nonprofit Boards are the Dingman Center for Entrepreneurship's Board of Advisors at the University of Maryland, the National Association of Corporate Directors, National Capital Chapter and the Board of the Association for Corporate Growth, National Capital Chapter. We believe that Mr. Broenniman is qualified to serve as our director because of his extensive management experience.

Chetan S. Shah, MD, Director

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

Charles J. Fisher, Jr., MD, Director and Chairman of the Board

Dr. Fisher has been Executive Chairman of CytoPherx, Inc. since 2013 and CEO of Margaux Biologics, Inc. since 2110. Prior to founding Margaux Biologics, he was Chief Medical Officer and Executive Vice President of Cardiome Pharma Corp. from 2005 to 2010 where he led the team that invented, developed, registered vernakalant, a novel, first in class, multi-ion channel drug for atrial fibrillation (Brinavess). Dr. Fisher served as Head, Section of Critical Care Medicine at The Cleveland Clinic Foundation, and has held Professor, Division Chief and Director positions at the University of California at Davis Medical Center, Case Western Reserve University and The Cleveland Clinic Foundation. His research in sepsis, inflammation, host defense and endothelial dysfunction led to his recruitment to Eli Lilly & Co., where he led the Xigris (activated Protein C) Global Product Team and successfully registered the first drug approved for the treatment of sepsis. Previously, he was Vice President for Global Pharmaceutical Development at Abbott Laboratories where, among other accomplishments, he guided the registration of Humira.

Additionally, Fisher is a multi-tour combat veteran, with extensive military experience in Special Operations. He has served as a member of the Defense Science Research Council and on DARPA panels, including one focused on universal host defense. Dr. Fisher was appointed to our Board on November 6, 2017, and we believe he is qualified to serve as our director because of his strong background in the medical field and public company experience.

Sabrina Martucci Johnson, Director

Ms. Johnson founded Daré Science Operations, Inc. in 2015 and has served as President, CEO and a member of the Board of Directors since its inception. This company was acquired through a reverse merger by Cerulean Pharma Inc. on July 19, 2017, and Ms. Johnson assumed the roles of President, CEO and a member of the Board of Directors of the renamed company, Daré Bioscience, Inc. Prior to founding Daré, Ms. Johnson was President of WomanCare Global Trading, a specialty pharmaceutical company in female reproductive healthcare with commercial product distribution in over 100 countries, from October of 2014 to May of 2015. Before serving as President of WomanCare Global Trading, Ms. Johnson provided financial consulting services to the WomanCare Global family of companies, including the for-profit Trading division as well as the United Kingdom-based non-profit division, from November of 2012 to July of 2013, when she joined full time as WomanCare's Chief Financial Officer and Chief Operating Officer until becoming President of the Trading division. In addition, Ms. Johnson served as Chief Operating Officer and Chief Financial Officer of Cypress Bioscience, Inc. until its sale in 2010. Ms. Johnson also held marketing and sales positions with Advanced Tissue Sciences and Clonetics Corporation. She began her career in the biotechnology industry as a research scientist with Baxter Healthcare, Hyland Division, working on their recombinant factor VIII program.

Ms. Johnson currently serves on the YWCA of San Diego County Board of Directors as Past President, PPPSW Board of Directors, Athena San Diego Board of Directors as Vice Chair, Tulane University School of Science & Engineering Board of Advisors, University of California San Diego (UCSD) Librarian's Advisory Board as Chair and Project Concern International Audit Committee. Ms. Johnson is also Immediate Past Co-President of Women Give San

Diego, which funds non-profit organizations serving women and girls in San Diego. She holds an MIM from the American Graduate School of International Management (Thunderbird) with honors, a MSc. in Biochemical Engineering from the University of London, University College London, and a BSc. in Biomedical Engineering from Tulane University, where she graduated magna cum laude.

68

Board of Directors

Our Board of Directors has the responsibility for establishing broad corporate policies and for overseeing our overall performance. Members of the Board of Directors are kept informed of our business activities through discussions with the CEO, President and other officers, by reviewing analyses and reports sent to them, and by participating in Board and committee meetings. Our bylaws provide that each of the directors serves for a term that extends to our next annual meeting of stockholders. Our Board of Directors presently has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, on each of which Mr. Broenniman and Dr. Shah serve. Mr. Broenniman is Chairman of the Audit Committee and the Nominating and Corporate Governance Committee, and Dr. Shah is Chairman of the Compensation Committee.

2012 DIRECTORS COMPENSATION PROGRAM

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

At March 31, 2017, we had issued 26,757 options under the 2005 program to outside directors and 79,309 options to employee-directors, 21,756 outside directors' options had been forfeited, 5,000 outside directors' options had been exercised, 79,309 employee-directors' options had been forfeited and no options under the 2005 program remained outstanding. There were no issuances of stock options to our outside directors in the fiscal years ended March 31, 2016 and 2017.

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

On August 9, 2016, the Board approved further modifications to the program. Under the modified 2012 Program, in which only non-employee directors may participate, a new eligible director will receive an initial grant of $50,000 worth of RSUs or, at the discretion of the Board, options to acquire shares of Common Stock. RSUs granted under this provision will be valued based on the average of the closing prices of the Common Stock for the five trading days preceding and including the date of grant and will vest at a rate determined by the Board in its discretion. Options granted under this provision will be valued at the exercise price, which will be based on the average of the closing prices of the Common Stock for the five trading days preceding and including the date of grant. Such options will have a term of ten years and will vest at a rate determined by the Board in its discretion.

At the beginning of each fiscal year, each existing director eligible to participate in the 2012 Program will receive a grant of $35,000 worth of RSUs or, at the discretion of the Board, options to acquire shares of Common Stock. RSUs granted under this provision will be valued based on the average of the closing prices of the Common Stock for the five trading days preceding and including the first day of the fiscal year (or preceding and including the date of grant, if such grant is not made on the first day of the fiscal year) and will vest at a rate determined by the Board in its discretion. Options granted under this provision will be valued at the exercise price, which will be based on the average of the closing prices of the Common Stock for the five trading days preceding and including the first day of the fiscal year (or preceding and including the date of grant, if such grant is not made on the first day of the fiscal year). Such options will have a term of ten years and will vest at a rate determined by the Board in its discretion.

The RSU grants and the changes to the 2012 Program were approved and recommended by our Compensation Committee prior to approval by the Board.

Family Relationships

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

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

Involvement in Legal Proceedings

To the best of our knowledge, during the past ten years, none of the following occurred with respect to a present or former director or executive officer of our company: (1) any bankruptcy petition filed by or against such person or any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; (4) being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated; and (5) being the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of any federal or state securities or commodities law or regulation, law or regulation respecting financial institutions or insurance companies or law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or (6) being the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Securities Exchange Act of 1934), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or associated persons.

Code of Ethics

On February 23, 2005, the Board of Directors approved a "Code of Business Conduct and Ethics," which applies to our principal executive officer, our principal financial officer, our principal accounting officer and persons performing similar tasks. Our Code of Business Conduct and Ethics is available on our company website at www.aethlonmedical.com.

Audit Committee and Audit Committee Financial Expert

Our Board of Directors formed an Audit Committee in May of 1999. Mr. Edward Broenniman (the Chairman of the Audit Committee) and Dr. Chetan S. Shah serve as members of the Audit Committee. The Board of Directors has determined that Mr. Broenniman is an "audit committee financial expert" as that term is defined by Item 407 of Regulation S-K. Mr. Broenniman and Dr. Shah meet the NASDAQ Stock Market's independence standards for members of such audit committees.

EXECUTIVE COMPENSATION

The following executive compensation disclosure reflects all compensation awarded to, earned by or paid to the executive officers below for the fiscal years ended March 31, 2017 and March 31, 2016. The following table summarizes all compensation for fiscal years 2017 and 2016 received by our Chief Executive Officer, and our three most highly compensated executive officers who earned more than $100,000 in fiscal year 2017.

SUMMARY COMPENSATION TABLE FOR 2017 AND 2016 FISCAL YEARS

NAMED EXECUTIVE OFFICER AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	STOCK AWARDS ($)	OPTION AWARDS ($) (5)	NON-EQUITY INCENTIVE PLAN COMPEN-SATION ($)	NON-QUALIFIE DEFERREI COMPEN-SATION EARNINGS ($)
James A. Joyce (1)	2017	$ 385,000	$ –	$ 678,380	$ –	$ –	$ –
CHIEF EXECUTIVE OFFICER	2016	$ 370,417	$ 275,000	$ –	$ –	$ –	$ –
Richard H. Tullis, PhD (2)	2017	$ –	$ –	$ –	$ –	$ –	$ –
VICE PRESIDENT AND CHIEF SCIENCE OFFICER	2016	$ 188,000	$ –	$ –	$ –	$ –	$ –
James B. Frakes (3)	2017	$ 235,000	$ –	$ 55,640	$ –	$ –	$ –
CHIEF FINANCIAL OFFICER AND SVP-FINANCE	2016	$ 226,429	$ 125,500	$ –	$ –	$ –	$ –
Rodney S. Kenley (4)	2017	$ 275,000	$ –	$ 55,640	$ –	$ –	$ –
PRESIDENT	2016	$ 268,750	$ 50,000	$ –	$ –	$ –	$ –

(1) The aggregate number of stock awards and stock option awards issued to Mr. Joyce and outstanding as of March 31, 2017 is 158,500 and 210,000, respectively. In September 2015, Mr. Joyce received a $35,000 salary increase from $350,000 to $385,000.

(2) The aggregate number of stock awards and stock option awards issued to Dr. Tullis and outstanding as of March 31, 2017 is zero and 46,000, respectively. In January 2015, we paid Dr. Tullis $93,377 in payment of accrued salary. Dr. Tullis resigned as an employee effective February 9, 2016 and is now a consultant to the Company.

(3) Mr. Frakes was appointed as Chief Financial Officer on September 27, 2010 after previously serving as Senior Vice President-Finance on a part-time basis. The aggregate number of stock awards and stock option awards issued to Mr. Frakes and outstanding as of March 31, 2017 is 13,000 and 25,000, respectively. In September 2015, Mr. Frakes received a $25,000 salary increase from $210,000 to $235,000.

(4) Mr. Kenley was appointed President on October 27, 2011. The aggregate number of stock awards and stock option awards issued to Mr. Kenley and outstanding as of March 31, 2017 is 13,000 and 35,000, respectively. In September 2015, Mr. Kenley received a $15,000 salary increase from $260,000 to $275,000.

(5) See note 5 to our financial statements for the years ended March 31, 2017 and 2016 regarding the assumptions made in valuing the restricted stock unit awards in the above table.

EMPLOYMENT CONTRACTS

We entered into an employment agreement with Mr. Joyce effective April 1, 1999. The agreement, which is cancelable by either party upon sixty days' notice, will be in effect until the Chairman retires or ceases to be employed by us. Under the terms of the agreement, if Mr. Joyce is terminated he may become eligible to receive a salary continuation payment in the amount of at least twelve months' base salary, which was increased to $385,000 per year in September 2015.

During the fiscal year ended March 31, 2016, Mr. Joyce earned bonuses totaling $100,000 from us, excluding a retention bonus (see below) and bonuses totaling $75,000 from Exosome Sciences, Inc. That bonus was based upon targets established by our compensation committee. Aethlon did not pay any bonuses during the fiscal year ended March 31, 2017. Mr. Joyce received bonuses totaling $60,000 from Exosome during the fiscal year ended March 31, 2017.

Mr. Joyce's employment agreement provides for medical insurance and disability benefits, and one year of severance pay if his employment is terminated by us without cause or due to change in our control before the expiration of the agreement, and allows for bonus compensation and stock option grants as determined by our Board of Directors. The agreement also contains restrictive covenants preventing competition with us and the use of confidential business information, except in connection with the performance of his duties for us, for a period of two years following the termination of his employment with us.

In February 2016, we entered into a part-time consulting agreement with Tullis, who was previously our CSO (formerly with an employment agreement with a $195,000 salary and a termination continuation payment equal to one year's base salary). Under that agreement, Tullis continued to provide services under the terms of a consulting agreement with us. In connection with the change in his employment, Tullis resigned as our Vice President. Under the consulting agreement, Tullis rendered approximately twenty (20) hours per week of such services, for which we paid him a consulting fee of $10,000 per month. The term of the consulting agreement was for an initial sixty-day period and, unless terminated earlier by either party, shall automatically extend for additional one-month periods. Either party to the consulting agreement may terminate it upon 30 day's prior written notice to the other party. Concurrently with the entry into the consulting agreement, Tullis and the Company mutually agreed to terminate his employment agreement with us.

In November 2016, the scope of the consulting agreement was amended to reduce the hours from 20 hours per week to 20 hours per month with a reduction in monthly consulting fees from the original $10,000 per month to $4,000 per month. Then in February 2017, the scope of the consulting agreement was further amended to reduce the hours from 20 hours per month to 10 hours per month with a reduction in monthly consulting fees from $4,000 per month to $2,000 per month.

On September 27, 2010, Mr. Frakes was appointed our Chief Financial Officer. We have not entered into a written employment agreement with Mr. Frakes. As Chief Financial Officer, Mr. Frakes received an annual salary initially set at $180,000 and medical insurance benefits. In June 2014, his salary was increased from $180,000 to $210,000 per year. In September 2015, Mr. Frakes received a $25,000 salary increase from $210,000 to $235,000.

During the fiscal year ended March 31, 2016, Mr. Frakes earned bonuses totaling $75,000 from us, excluding a retention bonus (see below). That bonus was based upon targets established by our compensation committee. Aethlon did not pay any bonuses during the fiscal year ended March 31, 2017.

Mr. Kenley was appointed our President on October 27, 2010. Pursuant to a written offer of employment executed by us and Mr. Kenley, he received an annual salary initially set at $240,000 and medical insurance benefits. In June 2014, his salary was increased from $240,000 to $260,000 per year. In September 2015, Mr. Kenley received a $15,000 salary increase from $260,000 to $275,000.

During the fiscal year ended March 31, 2016, Mr. Kenley received a retention bonus (see below). Aethlon did not pay any bonuses during the fiscal year ended March 31, 2017.

Retention Agreements

On October 16, 2015, following a recommendation of our Compensation Committee, we approved retention bonus grants to three of our executive officers under a newly established Aethlon Senior Management Retention Program to maintain management stability going forward. The Board approved a $100,000 retention bonus for Mr. James A. Joyce, our Chief Executive Officer, a $50,000 retention bonus for Mr. Rodney S. Kenley, our President, and a $50,000 retention bonus for Mr. James B. Frakes, our Chief Financial Officer.

In connection with the bonus granted to Mr. Joyce, we entered into an amendment of Mr. Joyce's Employment Agreement dated April 1, 1999. Pursuant to the amendment, if within two years of the effective date of the amendment, we terminate Mr. Joyce's employment with us for "Cause" (as defined in his employment agreement) or Mr. Joyce terminates his employment with us other than for "Good Reason" (as defined in his employment agreement), Mr. Joyce must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for "Cause" or termination by Mr. Joyce for "Good Reason," Mr. Joyce will not be required to repay any portion of the bonus received by him.

In connection with the bonus granted to Mr. Kenley, we entered into an amendment of Mr. Kenley's Offer Letter dated October 27, 2010. Pursuant to the amendment, if within two years of the effective date of the amendment, we terminate Mr. Kenley's employment with us for "Cause" (as defined in the amendment) or Mr. Kenley terminates his employment with us other than for "Good Reason" (as defined in the amendment), Mr. Kenley must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for "Cause" or termination by Mr. Kenley for "Good Reason," Mr. Kenley will not be required to repay any portion of the bonus received by him.

In connection with the bonus granted to Mr. Frakes, we entered into a Retention Bonus Agreement with Mr. Frakes. Pursuant to the agreement, if within two years of the effective date of the agreement, we terminate Mr. Frakes' employment with us for "Cause" (as defined in the agreement) or Mr. Frakes terminates his employment with us other than for "Good Reason" (as defined in the agreement), Mr. Frakes must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for "Cause" or termination by Mr. Frakes for "Good Reason," Mr. Frakes will not be required to repay any portion of the bonus received by him.

73

Outstanding Equity Awards at 2017 Fiscal Year-End

The following table sets forth certain information concerning stock option awards granted to our named executive officers.

OUTSTANDING EQUITY AWARDS AT 2017 FISCAL YEAR END

OPTIONS AWARDS

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS EXERCISABLE (#)	RESTRICTED STOCK UNITS EXERCISED (#)	RESTRICTED STOCK UNITS UNEXERCISABLE (#)	OPTION EXERCISE PRICE ($)	DATE OF OPTION EXPIRATION
James A. Joyce	50,000(1)	–	–	$ 18.00	09/21/17
	40,000(2)	–	–	$ 12.50	02/21/19
	50,000(3)	–	–	$ 12.50	09/27/20
	40,000(4)	–	–	$ 5.00	07/01/23
	30,000(7)	–	–	$ 9.50	06/06/24
	–	158,500	475,500	N/A	N/A
Richard H. Tullis (former CSO)	15,000(5)	–	–	$ 20.50	06/14/18
	20,000(6)	–	–	$ 12.50	09/27/20
	10,000(4)	–	–	$ 5.00	07/01/23
	1,000(7)	–	–	$ 9.50	06/06/24
James B. Frakes	10,000(6)	–	–	$ 12.50	09/27/20
	10,000(4)	–	–	$ 5.00	07/01/23
	5,000(7)	–	–	$ 9.50	06/06/24
	–	13,000	39,000	N/A	N/A
Rodney S. Kenley	20,000(6)	–	–	$ 12.50	10/27/20
	10,000(4)	–	–	$ 5.00	7/01/23
	5,000(7)	–	–	$ 9.50	06/06/24

–	13,000	39,000	N/A	N/A

Note: All our stock options are fully vested or will completely vest within 60 days of this report.

(1) This option was fully vested as of June 13, 2010.

(2) This option was fully vested as of December 15, 2010.

(3) This option was fully vested as of September 27, 2013.

(4) This option vests ratably on July 1, 2014, July 1, 2015, July 1, 2016 and July 1, 2017.

(5) This option was fully vested as of December 15, 2011.

(6) This option was fully vested as of October 27, 2014.

(7) This option was fully vested as of June 6, 2016.

Director Compensation for 2017 Fiscal Year

The following director compensation disclosure reflects all compensation awarded to, earned by or paid to the directors below for the fiscal year ended March 31, 2017.

	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
James A. Joyce (1)	$ –	–	–	–	–	–	$ –
Rodney S. Kenley (2)	$ –	–	–	–	–	–	$ –
Edward G. Broenniman (3)	$ 39,000	94,438	–	–	–	–	$ 133,438
Franklyn S. Barry, Jr. (4)	$ 39,000	94,438	–	–	–	–	$ 133,438
Chetan S. Shah, MD (5)	$ 39,000	94,438	–	–	–	–	$ 133,438

(1) All compensation received by Mr. Joyce in fiscal year 2017 is disclosed in the Summary Compensation Table above. Mr. Joyce received no compensation as a director in fiscal year 2017.

(2) All compensation received by Mr. Kenley in fiscal year 2017 is disclosed in the Summary Compensation Table above. Mr. Kenley received no compensation as a director in fiscal year 2017.

(3) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2017 are 16,432 and 43,431, respectively. Mr. Broenniman received stock option grants of 3,684 shares on June 6, 2014, 8,537 shares on March 14, 2014, and 9,211 shares on July 24, 2012 for his service as an outside director. The June 2014 option vested 3,684 shares on March 31, 2015, the March 2014 option vested all 8,537 shares at grant and the 2012 option vested 3,961 at grant, with 5,250 vesting in the June 2013 quarter. In January 2016, we paid $39,000 to Mr. Broenniman in payment of accrued Board of Directors fees for the fiscal year ended March 31, 2015 and in April 2016 we paid $38,000 to Mr. Broenniman in payment of accrued Board of Directors fees for the fiscal year ended March 31, 2016. During the fiscal year ended March 31, 2017, we paid Mr. Broenniman $29,250 in Board of Directors fees.

(4) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2017 are 16,432 and 41,431, respectively. Mr. Barry received stock option grants of 3,684 shares on June 6, 2014, 8,537 shares on

March 14, 2014 and 9,211 shares on July 24, 2012 for his service as an outside director. The June 2014 option vested 3,684 shares on March 31, 2015, the March 2014 option vested all 8,537 shares at grant and the 2012 option vested 3,961 at grant, with 5,250 vesting in the June 2013 quarter. In October 2015, we paid $39,000 to Mr. Barry in payment of accrued Board of Directors fees for the fiscal year ended March 31, 2015 and in April 2016 we paid $39,000 to Mr. Barry in payment of accrued Board of Directors fees for the fiscal year ended March 31, 2016. During the fiscal year ended March 31, 2017, we paid Mr. Barry $29,250 in Board of Directors fees. Mr. Barry retired from our Board of Directors as of March 30, 2017.

(5) The aggregate number of stock awards and options awards issued and outstanding as of March 31, 2017 are 16,432 and 11,205, respectively. Dr. Shah received stock option grants of 3,684 on June 6, 2014 and 7,520 shares on July 24, 2012 for his service as an outside director. The June 2014 option vested 3,684 shares on March 31, 2015, and the 2014 option vested all 7,520 shares at grant. In October 2015 we paid $39,000 to Dr. Shah in payment of accrued Board of Directors fees for the fiscal year ended March 31, 2015 and in April 2016 we paid $39,000 to Dr. Shah in payment of accrued Board of Directors fees for the fiscal year ended March 31, 2016. During the fiscal year ended March 31, 2017, we paid Dr. Shah $29,250 in Board of Directors fees.

Directors Compensation Program

We maintain a board compensation program, in which only non-employee directors may participate. Please see the “Equity Compensation Plans – 2012 Directors Compensation Program” section of this Report for more information on the program.

LEGAL MATTERS

Jolie Kahn, Esq. has passed upon the validity of the shares of common stock offered by this prospectus.

EXPERTS

The consolidated financial statements of Aethlon Medical, Inc. as of March 31, 2017 and 2016 and for each of the years in the two-year period ended March 31, 2017 have been audited by Squar Milner LLP, an independent registered public accounting firm, as stated in their report thereon (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's ability to continue as a going concern), and included in this Prospectus and Registration Statement in reliance upon such report and upon the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are a reporting company under the Exchange Act, and we file annual, quarterly and current reports and other information with the Commission. The public may read and copy any materials that we file with the Commission at its Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission.

Our website address is www.aethlonmedical.com. Our website and the information contained on our website are not incorporated into this prospectus or the registration statement of which it forms a part.

FOR THE YEARS ENDED MARCH 31, 2017 AND MARCH 31, 2016 AND NINE MONTHS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016

AETHLON MEDICAL, INC. AND SUBSIDIARY

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Aethlon Medical, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Aethlon Medical, Inc. and Subsidiary (the "Company") as of March 31, 2017 and 2016 and the related consolidated statements of operations, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, during the fiscal year ended March 31, 2017 the Company incurred a net loss and generated negative cash flows from operating activity and as of March 31, 2017 had an accumulated deficit of approximately $93,778,000. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ SQUAR MILNER LLP

SAN DIEGO, CALIFORNIA

JUNE 28, 2017

F-2

AETHLON MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	March 31, 2017	March 31, 2016
ASSETS		
CURRENT ASSETS		
Cash	$1,559,701	$2,123,737
Accounts receivable	–	199,471
Prepaid expenses and other current assets	37,551	53,294
TOTAL CURRENT ASSETS	1,597,252	2,376,502
Property and equipment, net	29,223	36,038
Patents, net	84,996	94,161
Deposits	14,897	22,415
TOTAL ASSETS	$1,726,368	$2,529,116
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$484,423	$244,804
Due to related parties	57,866	145,112
Other current liabilities	69,467	136,695
TOTAL CURRENT LIABILITIES	611,756	526,611
Convertible notes payable, net	519,200	500,139
TOTAL LIABILITIES	1,130,956	1,026,750
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value, 30,000,000 shares authorized at March 31, 2017 and 2016; 8,797,086 and 7,622,393 issued and outstanding at March 31, 2017 and 2016, respectively	8,796	7,621
Additional paid-in capital	94,445,739	88,047,142
Accumulated deficit	(93,778,156)	(86,502,043)
TOTAL AETHLON MEDICAL, INC. STOCKHOLDERS' EQUITY BEFORE NONCONTROLLING INTERESTS	676,379	1,552,720

NONCONTROLLING INTERESTS	(80,967)	(50,354)
TOTAL STOCKHOLDERS' EQUITY	595,412	1,502,366
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,726,368	$2,529,116

See accompanying notes to the consolidated financial statements.

F-3

AETHLON MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended March 31,	
	2017	2016
REVENUES:		
Government contract revenue	$392,073	$886,572
Total revenues	392,073	886,572
OPERATING EXPENSES		
Professional fees	2,161,592	2,259,096
Payroll and related expenses	3,479,347	2,083,297
General and administrative	849,491	929,013
Total operating expenses	6,490,430	5,271,406
OPERATING LOSS	(6,098,357)	(4,384,834)
OTHER EXPENSE		
Loss on debt extinguishment	558,198	–
Warrant repricing expense	345,841	–
Interest and other expenses	304,330	573,782
Total other expense	1,208,369	573,782
NET LOSS BEFORE NONCONTROLLING INTERESTS	(7,306,726)	(4,958,616)
LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(30,613)	(86,287)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(7,276,113)	$(4,872,329)
Basic and diluted net loss per share available to common stockholders	$(0.94)	$(0.66)
Weighted average number of common shares outstanding - basic and diluted	7,764,237	7,393,695

See accompanying notes to the consolidated financial statements.

F-4

AETHLON MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

	ATTRIBUTABLE TO AETHLON MEDICAL, INC.					
	COMMON STOCK		ADDITIONAL PAID IN	ACCUMULATED	NON-CONTROLLING	TOTAL
	SHARES	AMOUNT	CAPITAL	DEFICIT	INTERESTS	EQUITY
BALANCE - MARCH 31, 2015	6,657,046	$ 6,657	$ 82,238,507	$ (81,629,714)	$ 35,933	$ 651,383
Issuances of common stock for cash	959,140	958	5,605,797	–	–	5,606,755
Issuance of common stock under cashless warrant exercises	5,292	5	(5)	–	–	–
Issuance of common stock due to rounding up from reverse split	915	1	(1)	–	–	–
Stock-based compensation expense	–	–	202,844	–	–	202,844
Net loss	–	–	–	(4,872,329)	(86,287)	(4,958,616)
BALANCE - MARCH 31, 2016	7,622,393	$ 7,621	$ 88,047,142	$ (86,502,043)	$ (50,354)	$ 1,502,366
Issuances of common stock for cash under at the market program	216,078	216	954,889	–	–	955,105
Issuances of common stock and warrants under registered direct financing	773,000	773	1,803,477	–	–	1,804,250
Issuances of common stock under conversions of convertible notes and related accrued interest	33,091	33	144,686	–	–	144,719

Warrant repricing expense	–	–	345,841	–	–	345,841
Loss on debt extinguishment	–	–	558,198	–	–	558,198
Debt discount on convertible notes payable	–	–	783,868	–	–	783,868
Repurchase of restricted stock units	149,864	150	(378,668)	–	–	(378,518)
Exercise of cashless warrants	2,660	3	(3)	–	–	–
Stock-based compensation expense	–	–	2,186,309	–	–	2,186,309
Net loss	–	–	–	(7,276,113)	(30,613)	(7,306,726)
BALANCE - MARCH 31, 2017	8,797,086	$ 8,796	$ 94,445,739	$ (93,778,156)	$ (80,967)	$ 595,412

See accompanying notes to the consolidated financial statements.

AETHLON MEDICAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Net loss	$(7,306,726)	$(4,958,616)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	32,413	38,524
Warrant repricing expense	345,841	–
Loss on debt extinguishment	558,198	–
Stock based compensation	2,186,309	202,844
Amortization of debt discount and deferred financing costs	220,439	517,233
Changes in operating assets and liabilities:		
Accounts receivable	199,471	(6,130)
Prepaid expenses and other current assets	15,743	19,841
Other assets	7,518	(95,638)
Accounts payable and other current liabilities	322,140	(46,365)
Due to related parties	(87,246)	(1,000)
Net cash used in operating activities	(3,505,900)	(4,329,307)
Cash flows from investing activities:		
Purchases of property and equipment	(16,433)	(9,307)
Net cash used in investing activities	(16,433)	(9,307)
Cash flows from financing activities:		
Cash paid for repurchase of restricted stock units	(378,518)	–
Proceeds from the issuance of convertible notes payable	577,460	–
Net proceeds from the issuance of common stock and warrants	2,759,355	5,606,755
Net cash provided by financing activities	2,958,297	5,606,755
Net (decrease) increase in cash	(564,036)	1,268,141
Cash at beginning of year	2,123,737	855,596
Cash at end of year	$1,559,701	$2,123,737
Supplemental information of non-cash investing and financing activities:		
Conversion of debt, accrued liabilities and accrued interest to common stock	$144,719	$–
Reclassification of accrued interest to convertible notes payable	$85,031	$–
Issuance of shares for warrants	$198	$–
Issuance of shares under vested restricted stock units	$150	$–

Issuance of shares under cashless warrant exercises	$3	$5
Debt discount on convertible notes payable	$783,868	$–

See accompanying notes to the consolidated financial statements.

F-6

Aethlon Medical, Inc. and Subsidiary

Notes to Consolidated Financial Statements

1. ORGANIZATION, LIQUIDITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

We create medical technologies to address unmet 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. We believe the Aethlon Hemopurifier® can achieve the broad-spectrum countermeasure goal set forth by the U.S. Department of Health and Human Services (HHS). The device has been validated to capture Ebola, Zika, Lassa, MERS-CoV, HIV, Hepatitis C, Cytomegalovirus, Epstein-Barr, Herpes Simplex, Chikungunya, Dengue, West Nile, Smallpox related viruses, H1N1 Swine Flu, H5N1 Bird Flu, and the reconstructed Spanish flu virus of 1918. At present, the Hemopurifier® is being advanced under an FDA approved clinical study. Aethlon is also the majority owner of Exosome Sciences, Inc., a company focused on the discovery of exosomal biomarkers to diagnose and monitor life-threatening diseases.

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 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. 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. We ended the treatment phase of the study after treating eight end-stage renal disease patients who were 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 subsidiary, Exosome Sciences, Inc. (“ESI”), commenced operations with a focus on advancing exosome-based strategies to diagnose and monitor the progression of cancer, infectious disease and other life-threatening conditions.

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

REVERSE STOCK SPLIT

On April 14, 2015, the Company 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 consolidated financial statements and accompanying notes have been retroactively revised to reflect such reverse stock split as if it had occurred on April 1, 2014. All shares and per share amounts have been revised accordingly.

LIQUIDITY AND GOING CONCERN

The accompanying 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 March 31, 2017 had an accumulated deficit of approximately $93,778,000. 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 fiscal year ending March 31, 2018 through debt and/or equity financing arrangements.

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 additional 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 fiscal 2018. However, no assurance can be given that we will receive any funds in addition to the funds we have received to date.

If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our current shareholders could be reduced, and such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of prospective business endeavors or opportunities, which could significantly and materially restrict our operations. We are continuing to pursue external financing alternatives to improve our working capital position. If we are unable to obtain the necessary capital, we may have to cease operations.

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.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Aethlon Medical, Inc. and its majority-owned (80% ownership) and controlled subsidiary, Exosome Sciences, Inc. (ESI). All significant intercompany balances and transactions have been eliminated in consolidation. The Company has classified the (20% ownership) noncontrolling interests in ESI as part of consolidated net loss in the fiscal years ended March 31, 2017 and 2016 and includes the accumulated amount of noncontrolling interests as part of equity.

The losses at ESI during the fiscal year ended March 31, 2017 reduced the noncontrolling interests on our consolidated balance sheet by $30,613 from $(50,354) at March 31, 2016 to $(80,967) at March 31, 2017.

RISKS AND UNCERTAINTIES

We operate in an industry that is subject to intense competition, government regulation and rapid technological change. Our operations are subject to significant risk and uncertainties including financial, operational, technological, regulatory, and including the potential risk of business failure.

USE OF ESTIMATES

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting periods. Significant estimates made by management include, among others, realization of long-lived assets, valuation of derivative liabilities, estimating fair value associated with debt and equity transactions and valuation of deferred tax assets. Actual results, whether in the near, medium or long-term future, could differ from those estimates.

CASH AND CASH EQUIVALENTS

Accounting standards define "cash and cash equivalents" as any short-term, highly liquid investment that is both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. For the purpose of financial statement presentation, we consider all highly liquid investment instruments with original maturities of three months or less when purchased, or any investment redeemable without penalty or loss of interest to be cash equivalents. As of March 31, 2017 and 2016, we had no assets that were classified as cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of our cash, accounts receivable, accounts payable, and other current liabilities approximates their estimated fair values due to the short-term maturities of those financial instruments. The carrying amount of the notes payable approximates their fair value due to the short maturity of the notes and since the interest rates approximate current market interest rates for similar instruments.

Management has concluded that it is not practical to determine the estimated fair value of amounts due to related parties because the transactions cannot be assumed to have been consummated at arm's length, the terms are not deemed to be market terms, there are no quoted values available for these instruments, and an independent valuation would not be practicable due to the lack of data regarding similar instruments, if any, and the associated potential costs.

We follow Financial Accounting Standard Board's ("FASB") Accounting Standards Codification ("ASC") FASB ASC 820, "Fair Value Measurements and Disclosures" ("ASC 820") in connection with financial assets and liabilities measured at fair value on a recurring basis subsequent to initial recognition.

ASC 820 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

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

We do not have any assets or liabilities that are measured at fair value on a recurring basis and, during the years ended March 31, 2017 and 2016, and did not have any assets or liabilities that were measured at fair value on a nonrecurring basis.

CONCENTRATIONS OF CREDIT RISKS

Cash is maintained at one financial institution in checking accounts and related cash management accounts. Accounts at this institution are secured by the Federal Deposit Insurance Corporation up to $250,000. Our March 31, 2017 cash balances were approximately $1,308,000 over such insured amount. We do not believe that the Company is exposed to any significant risk with respect to its cash.

All of our accounts receivable at March 31, 2017 and 2016 and all of our revenue in the fiscal years ended March 31, 2017 and 2016 were directly from the U.S. Department of Defense or from a subcontract under Battelle, which is a prime contractor with the U.S. Department of Defense.

PROPERTY AND EQUIPMENT

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

INCOME TAXES

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

LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the cost basis of a long-lived asset is greater than the projected future undiscounted net cash flows from such asset, an impairment loss is recognized. We believe no impairment charges were necessary during the fiscal years ended March 31, 2017 and 2016.

F-10

LOSS PER 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. 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 March 31, 2017 and 2016, a total of 3,908,292 and 2,710,107 potential common shares, consisting of shares underlying outstanding stock options, restricted stock units, warrants and convertible notes payable were excluded as their inclusion would be antidilutive.

SEGMENTS

Historically, we operated in one segment that was based on our development of therapeutic devices. However, in the December 2013 quarter, we initiated the operations of ESI to develop diagnostic tests. As a result, we now operate in two segments, Aethlon for therapeutic applications and ESI for diagnostic applications (See Note 10).

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.

DEFERRED FINANCING COSTS

Costs related to the issuance of debt are capitalized as a deduction to our convertible notes based on the new accounting standard on imputation of interest, and amortized to interest expense over the life of the related debt using the effective interest method. We recorded amortization expense related to our deferred financing costs of $27,641 and $144,683 during the fiscal years ended March 31, 2017 and 2016, respectively.

REVENUE RECOGNITION

DARPA Contract -- We entered into a government contract with DARPA and have recognized revenue of $387,438 and $863,011 under that contract during the fiscal years ended March 31, 2017 and 2016, respectively. We adopted the Milestone method of revenue recognition for the DARPA contract under ASC 605-28 “Revenue Recognition – Milestone Method” (“ASC 605-28”) and we believe we meet the requirements under ASC 605-28 for reporting contract revenue under the Milestone Method for the fiscal years ended March 31, 2017 and 2016.

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

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

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

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

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

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

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

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

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

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

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

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

Battelle Subcontract -- We entered into a subcontract agreement with Battelle Memorial Institute ("Battelle") in March 2013. Battelle was chosen by DARPA to be the prime contractor on the systems integration portion of the original DARPA contract and we are one of several subcontractors on that systems integration project. The Battelle subcontract is cost-reimbursable under a time and materials basis. We began generating revenues under the subcontract during the three months ended September 30, 2013 and for the fiscal years ended March 31, 2017 and 2016, we recorded revenue of $4,635 and $23,561, respectively, under the Battelle subcontract.

Our revenue under this contract was a function of cost reimbursement plus an overhead mark-up for hours devoted to the project by specific employees (with specific hourly rates for those employees). Battelle engaged us as needed. Each payment required approval by the program manager at Battelle.

STOCK-BASED COMPENSATION

Employee stock options and rights to purchase shares under stock participation plans are accounted for under the fair value method. Accordingly, share-based compensation is measured when all granting activities have been completed, generally the grant date, based on the fair value of the award. The exercise price of options is generally equal to the market price of the Company's common stock (defined as the closing price as quoted on the Nasdaq Capital Market or OTCBB on the date of grant). Compensation cost recognized by the Company includes (a) compensation cost for all equity incentive awards granted prior to April 1, 2006, but not yet vested, based on the grant-date fair value estimated in accordance with the original provisions of the then current accounting standards, and (b) compensation cost for all equity incentive awards granted subsequent to March 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of subsequent accounting standards. We use a Binomial Lattice option pricing model for estimating fair value of options granted (see Note 5).

The following table summarizes share-based compensation expenses relating to shares and options granted and the effect on loss per common share during the years ended March 31, 2017 and 2016:

	Fiscal Years Ended	
	March 31, 2017	March 31, 2016
Vesting of Stock Options and Restricted Stock Units	$2,186,309	$202,844
Total Stock-Based Compensation Expense	$2,186,309	$202,844
Weighted average number of common shares outstanding – basic and diluted	7,764,237	7,393,695
Basic and diluted loss per common share	$(0.28)	$(0.03)

F-12

We account for transactions involving services provided by third parties where we issue equity instruments as part of the total consideration using the fair value of the consideration received (i.e. the value of the goods or services) or the fair value of the equity instruments issued, whichever is more reliably measurable. In transactions, when the value of the goods and/or services are not readily determinable and (1) the fair value of the equity instruments is more reliably measurable and (2) the counterparty receives equity instruments in full or partial settlement of the transactions, we use the following methodology:

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

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

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

We review share-based compensation on a quarterly basis for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The effect of adjusting the forfeiture rate for all expense amortization after March 31, 2007 is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments for the fiscal year ended March 31, 2017 was insignificant.

PATENTS

Patents include both foreign and domestic patents. We capitalize the cost of patents, some of which were acquired, and amortize such costs over the shorter of the remaining legal life or their estimated economic life, upon issuance of the patent. The unamortized costs of patents are subject to our review for impairment under our long-lived asset policy above.

STOCK PURCHASE WARRANTS

We grant warrants in connection with the issuance of convertible notes payable and the issuance of common stock for cash. When such warrants are classified as equity and issued in connection with debt, we measure the relative estimated fair value of such warrants and record it as a discount from the face amount of the convertible notes payable. Such discounts are amortized to interest expense over the term of the notes using the effective interest method. Warrants issued in connection with common stock for cash, if classified as equity, are considered issued in connection with equity transactions and the warrant fair value is recorded to additional paid-in-capital.

DERIVATIVE INSTRUMENTS

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

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

Instruments classified as derivative liabilities are remeasured each reporting period (or upon reclassification) and the change in fair value is recorded on our consolidated statement of operations in other (income) expense. We had no derivative liabilities at either March 31, 2017 or March 31, 2016.

BENEFICIAL CONVERSION FEATURE OF CONVERTIBLE NOTES PAYABLE

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

RESEARCH AND DEVELOPMENT EXPENSES

Our research and development costs are expensed as incurred. We incurred approximately $673,000 and $782,000 of research and development expenses for the years ended March 31, 2017 and 2016, respectively, which are included in various operating expenses in the accompanying consolidated statements of operations.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our consolidated financial statements.

SIGNIFICANT RECENT ACCOUNTING PRONOUNCEMENTS

During the fiscal year ended March 31, 2017, 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. We did not have any unamortized deferred financing costs at March 31, 2017.

During the fiscal year ended March 31, 2017, we also adopted FASB ASU 2015-01, the new accounting standard on income statement - extraordinary and unusual items (Subtopic 225-20): simplifying income statement presentation by eliminating the concept of extraordinary items and FASB ASU 2014-15, the new accounting standard on the presentation of financial statements - going concern (Subtopic 205-40): disclosure of uncertainties about an entity's ability to continue as a going concern.

The adoption of FASB ASU 2015-01 did not have a material impact on our consolidated financial statements for the fiscal years ended March 31, 2016 and 2017 as we did not have any extraordinary or unusual items in those fiscal years and we believe this accounting pronouncement will not have a significant impact on the our consolidated financial statements in the future.

The adoption of FASB ASU 2014-15 did not have a material impact on our consolidated financial statements for the fiscal years ended March 31, 2016 and 2017 as our management had determined that a going concern qualification for both of those years was appropriate. We have evaluated the new going concern considerations in this ASU and have determined that it is appropriate to provide additional disclosure to our consolidated financial statements (see Note 1).

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, 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.

2. PROPERTY AND EQUIPMENT

Property and equipment, net, consist of the following:

	March 31, 2017	March 31, 2016
Furniture and office equipment, at cost	$352,085	$394,395
Accumulated depreciation	(322,862)	(358,357)
	$29,223	$36,038

Depreciation expense for the years ended March 31, 2017 and 2016 approximated $23,000 and $29,000, respectively.

3. PATENTS

Patents consist of the following:

	March 31, 2017	March 31, 2016
Patents	$211,645	$211,645
Accumulated amortization	(126,649)	(117,484)
	$84,996	$94,161

Amortization expense for patents for the years ended March 31, 2017 and 2016 approximated $9,000. Future amortization expense on patents is estimated to be approximately $9,000 per year based on the estimated life of the patents. The weighted average remaining life of our patents is approximately 4.0 years.

4. CONVERTIBLE NOTES PAYABLE

Convertible Notes Payable, Net consisted of the following at March 31, 2017:

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Convertible Notes Payable, Net – Non-Current Portion:				
November 2014 10% Convertible Notes	$612,811	$ (275,363)	$337,448	$ 2,555
December 2016 10% Convertible Notes	680,400	(498,648)	181,752	2,836
Total Convertible Notes Payable, Net	$1,293,211	$ (774,011)	$519,200	$ 5,391

During the fiscal year ended March 31, 2017, we recorded interest expense of $81,102 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 $192,798 related to the amortization of the note discount for a total interest expense of $301,541 related to our convertible notes in the fiscal year ended March 31, 2017. All of the unamortized discount at December 31, 2016 related to the note discount established upon the second amendment to the November 2014 10% Convertible Notes and to the December 2016 10% Convertible Notes (see below). Accrued interest is included in other current liabilities (see Note 7).

Convertible Notes Payable, Net consisted of the following at March 31, 2016:

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Convertible Notes Payable, Net– Non-Current Portion:				
November 2014 10% Convertible Notes	$527,780	$ (27,641)	$500,139	$74,036
Total Convertible Notes Payable, Net	$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 fiscal year ended March 31, 2016, we recorded interest expense of $52,778 related to the contractual interest rates of our convertible notes, interest expense of $372,550 related to the amortization of debt discounts on the convertible notes and interest expense of $144,683 related to the amortization of deferred financing costs for a total of

$570,011. Accrued interest is included in other current liabilities (see Note 7).

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". 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 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. 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.

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 (See Note 11).

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 March 31, 2017	$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.

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 (See Note 11).

There were no conversions of principal on the December 2016 10% Convertible Notes during the fiscal year ended March 31, 2017.

5. EQUITY TRANSACTIONS

ISSUANCES OF COMMON STOCK AND WARRANTS

Equity Transactions in the Fiscal Year Ended March 31, 2017.

Common Stock Sales Agreement with H.C. Wainwright

On June 28, 2016, we entered into a Common Stock Sales Agreement (the “Agreement”) with H.C. Wainwright & Co., LLC (“H.C. Wainwright”) which establishes an at-the-market equity program pursuant to which we may offer and sell shares of our common stock from time to time as set forth in the Agreement. The Agreement provides for the sale of shares of our common stock having an aggregate offering price of up to $12,500,000 (the “Shares”).

Subject to the terms and conditions set forth in the Agreement, H.C. Wainwright will use its commercially reasonable efforts consistent with its normal trading and sales practices to sell the Shares from time to time, based upon our instructions. We have provided H.C. Wainwright with customary indemnification rights, and H.C. Wainwright will be entitled to a commission at a fixed rate equal to three percent (3.0%) of the gross proceeds per Share sold. In addition, we have agreed to pay certain expenses incurred by H.C. Wainwright in connection with the Agreement, including up to $50,000 of the fees and disbursements of their counsel. The Agreement will terminate upon the sale of all of the Shares under the Agreement unless terminated earlier by either party as permitted under the Agreement.

Sales of the Shares, if any, under the Agreement shall be made in transactions that are deemed to be “at the market offerings” as defined in Rule 415 under the Securities Act, including sales made by means of ordinary brokers’ transactions, including on the Nasdaq Capital Market, at market prices or as otherwise agreed with H.C. Wainwright. We have no obligation to sell any of the Shares, and, at any time, we may suspend offers under the Agreement or terminate the Agreement.

In July 2016, we commenced sales of common stock under our Common Stock Sales Agreement with H.C. Wainwright. In the fiscal year ended March 31, 2017, we raised aggregate net proceeds of $955,206 (net of $29,831 in commissions to H.C. Wainwright and $9,432 in other offering expenses) under this agreement through the sale of 216,078 shares at an average price of $4.42 per share of net proceeds.

Warrant Issuances in July 2016

In July 2016, we issued an aggregate of 2,660 shares of common stock to three investors upon the exercise of previously issued warrants. The warrants were exercised on a cashless or “net” basis. Accordingly, we did not receive any proceeds from such exercises. The cashless exercise of such warrants resulted in the cancellation of previously issued warrants to purchase an aggregate of 19,563 shares of common stock.

Restricted Stock Unit Grants to Directors and Executive Officers

During the fiscal year ended March 31, 2017, 149,864 Restricted Stock Units (“RSUs”) held by our outside directors and executive officers were exchanged into the same number of shares of our common stock (see Stock-Based Compensation below).

Amendment of Warrants Issued in Conjunction with the November 2014 10% Convertible Notes

Under the Second Amendment and Extension of the November 2014 10% Convertible Notes dated June 27, 2016 (See Note 4), we reduced the purchase price of 47,125 Warrants from $8.40 per share to $5.00 per share.

We also issued to the investors new warrants to purchase an aggregate of 30,000 shares of common stock with a purchase price 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 (See Note 4).

Amendment of December 2014 Warrants

On June 27, 2016, we and certain investors (the “Unit Investors”) entered into Consent and Waiver and Amendment agreements (the “CWAs”), relating to an aggregate of 264,000 Warrants to Purchase Common Stock (the “Unit Warrants”) we had issued to the Unit Investors on December 2, 2014 pursuant to a Securities Purchase Agreement dated November 26, 2014 (the “2014 SPA”). In the CWAs, each of the Unit Investors provided its consent under certain restrictive provisions, and waived certain rights, including a right to participate in certain offerings made by us, under the 2014 SPA in order to facilitate the at-the-market equity program described above. Pursuant to the CWAs, we reduced the Exercise Price (as defined in the Unit Warrants) from $15.00 per share of common stock to $5.00 per share of common stock. At any time that the shares of common stock underlying the Unit Warrants are covered by an effective registration statement that permits the public resale of the shares, if the Unit Investors exercise the Unit Warrants, they must do so by a cash exercise, which could yield up to $1,320,000 in proceeds to us.

On June 27, 2016, each of the Unit Investors also entered into a Consent and Waiver providing its consent under certain provisions, and waiving certain rights, including a right to participate in certain offerings made by us, under the 2015 SPA in order to facilitate the at-the-market equity program described above.

In accordance with applicable GAAP for warrant modifications, we measured the change in fair value that arose from the reduction in exercise price and recognized an expense of $345,841, which is included in other (income) expenses in the accompanying condensed consolidated statements of operations.

Warrants Issued in Conjunction with the December 2016 10% Convertible Notes

On December 30, 2016, we entered into a securities purchase agreement (the “Securities Purchase Agreement”) with two accredited investors (collectively, the “Holders”), pursuant to which the Purchasers 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”) (See Note 4).

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 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.

MARCH 2017 EQUITY FINANCING

On March 22, 2017, we entered into a Securities Purchase Agreement (the “Purchase Agreement”) with certain institutional investors (the “Investors”) for the sale of 575,000 shares (the “Common Shares”) of our common stock, par value $0.001 per share (the “Common Stock”), at a purchase price of $3.50 per share, in a registered direct offering. Concurrently with the sale of the Common Shares, pursuant to the Purchase Agreement, we also sold in a private placement warrants to purchase 575,000 shares of Common Stock (the “Warrants”). The aggregate gross proceeds for the sale of the Common Shares and Warrants will be approximately $2 million. Subject to certain ownership limitations, the Warrants will be initially exercisable commencing six months from the issuance date at an exercise price equal to $3.95 per share of Common Stock, subject to adjustments as provided under the terms of the Warrants. The Warrants will be exercisable for five years from the initial exercise date.

The net proceeds to us from the transactions, after deducting the placement agent’s fees and expenses (not including the Wainwright Warrants, as defined below), our estimated offering expenses, and excluding the proceeds, if any, from the exercise of the Warrants, were $1,804,250. We intend to use the net proceeds from the transactions for general corporate purposes.

The Common Shares (but not the Warrants or shares issuable upon exercise of the Warrant) were sold by us pursuant to an effective shelf registration statement on Form S-3, which was filed with the Securities and Exchange Commission (the “SEC”) on May 5, 2016 and subsequently declared effective on May 12, 2016 (File No. 333-211151) (the “Registration Statement”), and the base prospectus dated as of May 12, 2016 contained therein. We filed a prospectus supplement and the accompanying prospectus with the SEC in connection with this sale of the Common Shares.

The purchase agreement also covered the exchange of 264,000 warrants issued to the purchasers thereunder in December 2014 for 198,000 shares of our common stock. Further, in exchange for certain waivers given by the purchasers and certain other investors in a private placement of the Company in June 2015, the warrants issued in such private placement were amended to (i) reduce the exercise price to $3.95 per share, (ii) make the warrants non-exercisable for a period of six months from the date of amendment, and (iii) extend the term of those warrants by six months. As all of these warrant-related elements were integral to the March 2017 Equity Financing, we accounted for all of these elements as adjustments to additional paid-in capital.

The Warrants and the shares issuable upon exercise of the Warrants were sold and issued without registration under the Securities Act of 1933 (the “Securities Act”) in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act as transactions not involving a public offering and Rule 506 promulgated under the Securities Act as sales to accredited investors, and in reliance on similar exemptions under applicable state laws.

We also entered into an engagement letter (the “Engagement Letter”) with Rodman & Renshaw, a unit of H.C. Wainwright & Co., LLC (“Rodman”), pursuant to which Rodman agreed to serve as exclusive placement agent for the issuance and sale of the Common Shares and Warrants. We paid Rodman an aggregate fee equal to 6% of the gross proceeds received by us from the sale of the securities in the transactions. Pursuant to the Engagement Letter, we also agreed to grant to Rodman or its designees warrants to purchase up to 3% of the aggregate number of shares sold in the transaction (the “Rodman Warrants”). The Engagement Letter has a nine month tail and right of first offer periods, indemnity and other customary provisions for transactions of this nature. The Rodman Warrants have substantially the same terms as the Warrants, except that the exercise price is 125% of $3.50. We also paid Rodman a reimbursement for non-accountable expenses in the amount of $50,000.

Equity Transactions in the Fiscal Year Ended March 31, 2016.

REVERSE STOCK SPLIT

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, 2014. All share and per share amounts have been revised accordingly.

INCREASE IN AUTHORIZED SHARES

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.

On April 28, 2015, we issued 915 shares of common stock as the result of rounding up of fractional shares that arose due to our reverse stock split.

On June 25, 2015, we sold $6,000,000 of units, comprised of common stock and warrants, to 18 accredited investors at a price of $6.30 per unit. Each unit consisted of one share of common stock and 0.75 of a five-year warrant to purchase one share of common stock at an exercise price of $6.30 per share. Accordingly, we issued a total of 952,383 shares of unregistered common stock and warrants to purchase 714,285 shares of common stock. For its services as sole placement agent for the financing, we paid Roth Capital Partners, LLC (“Roth”) a cash fee of $285,512 and expense reimbursement of $75,000 and we issued them a five-year warrant to purchase 32,371 shares of common stock at an exercise price of $6.30 per share. We received $5,591,988 in net proceeds from this financing. The warrant fair value, which was valued using a binomial lattice model, was recorded to additional paid-in-capital.

In connection with the financing, Mr. James Joyce, our Chief Executive Officer, Mr. James Frakes, our Chief Financial Officer and Dr. Chetan Shah, a director of our company, each agreed to waive their right to exercise certain stock options and warrants held by them representing the right to acquire 402,318 shares of common stock in the aggregate (the “Waivers”). The Waivers were required in order to make a sufficient number of shares of common stock available for issuance and the Waivers expired when we amended our Articles of Incorporation on March 31, 2016.

During the three months ended September 30, 2015, we issued an aggregate of 5,292 shares of common stock to an accredited investor upon the exercise of previously issued warrants. The warrants were exercised on a cashless or “net” basis. Accordingly, we did not receive any proceeds from such exercises. The cashless exercise of such warrants resulted in the cancellation of previously issued warrants to purchase an aggregate of 1,744 shares of common stock.

During the three months ended December 31, 2015, we issued an aggregate of 6,757 unregistered shares of common stock to two investors upon the exercise of previously issued warrants. The warrants were exercised for cash and we received cash proceeds of $14,766 for an average purchase price of $2.19 per share per the terms of the warrants.

WARRANTS:

During the fiscal year ended March 31, 2017, we issued warrants in connection with three financing arrangements. The first warrant issuance during the fiscal year was the issuance of 30,000 warrants with an exercise price of $5.00 per share in June 2016. Those 30,000 warrants were issued in connection with the Amendment of November 2014 Investment Documents (see Note 4).

The second warrant issuance was the issuance of 127,575 warrants with an exercise price of $4.50 per share in December 2016. Those 127,575 warrants were issued in connection with the issuance of our December 2016 10% Convertible Notes (see Note 4).

The third warrant issuance during the fiscal year was our March 22, 2017 equity financing with certain institutional investors (the “Investors”) for the sale of 575,000 shares (the “Common Shares”) of our common stock, par value $0.001 per share (the “Common Stock”), at a purchase price of $3.50 per share, in a registered direct offering. Concurrently with the sale of the Common Shares, pursuant to the Purchase Agreement, we also sold in a private placement warrants to purchase 575,000 shares of Common Stock (the “Warrants”). Subject to certain ownership limitations, the Warrants will be initially exercisable commencing six months from the issuance date at an exercise price equal to $3.95 per share of Common Stock, subject to adjustments as provided under the terms of the Warrants. The Warrants will be exercisable for five years from the initial exercise date.

The purchase agreement also covered the exchange of 264,000 warrants issued to the purchasers thereunder in December 2014 for 198,000 shares of our common stock. Further, in exchange for certain waivers given by the purchasers and certain other investors in a private placement of the Company in June 2015, the warrants issued in such private placement were amended to (i) reduce the exercise price to $3.95 per share, (ii) make the warrants non-exercisable for a period of six months from the date of amendment, and (iii) extend the term of those warrants by six months.

We also entered into an engagement letter (the “Engagement Letter”) with Rodman & Renshaw, a unit of H.C. Wainwright & Co., LLC (“Rodman”), pursuant to which Rodman agreed to serve as exclusive placement agent for the issuance and sale of the Common Shares and Warrants. In addition to a cash placement fee equal to 6% of the gross proceeds received by us from the sale of the securities in the transaction, we also agreed to grant to Rodman or its designees warrants to purchase up to 3% of the aggregate number of shares sold in the transaction (the “Rodman Warrants”). The Rodman Warrants have substantially the same terms as the Warrants, except that the exercise price is 125% of $3.50.

Based on the above assumptions, we valued the warrants issued during the fiscal year ended March 31, 2017 as follows:

- The 30,000 warrants issued in June 2016 were valued at $111,900 and we classified that fair value as equity.

- The 127,575 warrants issued in December 2016 were valued at $380,174 and we classified $232,718 of that fair value as debt discount and the remainder as equity.
- The 575,000 warrants issued in March 2017 were valued at $1,493,390 and we classified that fair value as equity.
- In connection with our March 2017 financing, we agreed to reduce the exercise price on 547,620 warrants from $6.30 to $3.44. We valued the change in fair value due to the change in exercise price at $219,048 and classified that fair value as equity.
- Also in connection with our March 2017 financing, we agreed with the investor in that financing to exchange 198,000 shares for the return and cancellation of 264,000 warrants. We calculated the fair value of those 264,000 warrants at $528,000 and classified the impact of this share for warrant exchange as equity due to the integral connection with the March 2017 financing.

A summary of the aggregate warrant activity for the years ended March 31, 2017 and 2016 is presented below:

	Fiscal Year Ended March 31,			
	2017		2016	
	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	2,164,094	$ 6.68	1,430,738	$ 6.84
Granted	749,825	$ 4.10	746,657	$ 6.30
Exercised	(2,660)	$ 6.25	(12,049)	$ 2.15
Cancelled/Forfeited	(307,163)	$ 5.18	(1,252)	$ 2.10
Outstanding, end of year	2,604,096	$ 3.64	2,164,094	$ 6.68
Exercisable, end of year	2,604,096	$ 3.64	2,164,094	$ 6.68
Weighted average estimated fair value of warrants granted		$ 2.65		$ 5.11

The following outlines the significant weighted average assumptions used to estimate the fair value of warrants granted utilizing the Binomial Lattice option pricing model:

	Year Ended March 31,	
	2017	2016
Risk free interest rate	0.7% - 1.93%	1.70%
Average expected life	3.42 – 5.5 years	5 years
Expected volatility	88.2% - 96.0%	98.6%
Expected dividends	None	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.

The detail of the warrants outstanding and exercisable as of March 31, 2017 is as follows:

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price

		(Years)			
$5.00 or Below	1,860,101	3.78	$ 3.67	1,860,101	$ 3.67
$5.20 - $9.00	711,067	2.77	$ 6.47	705,067	$ 6.47
$9.65 - $15.00	32,928	2.37	$ 12.32	32,928	$ 12.32
	2,604,096			2,604,096	

STOCK-BASED COMPENSATION:

2000 STOCK OPTION PLAN

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

At March 31, 2016, all of the grants previously made under the 2000 Stock Option Plan had expired and 200 unregistered shares had been issued under the plan, with 9,800 available for future issuance.

2010 STOCK INCENTIVE PLAN

In August 2010, we adopted the 2010 Stock Incentive Plan, which provides incentives to attract, retain and motivate employees and directors whose present and potential contributions are important to our success by offering them an opportunity to participate in our future performance through awards of options, the right to purchase common stock, stock bonuses and stock appreciation rights and other awards. A total of 70,000 common shares were initially reserved for issuance under the 2010 Stock Incentive Plan.

In August 2010, we filed a registration statement on Form S-8 for the purpose of registering 70,000 common shares issuable under this plan under the Securities Act, and in July 2012, we filed a registration statement on Form S-8 for the purpose of registering 100,000 common shares issuable under this plan under the Securities Act.

On January 26, 2016, our Board of Directors approved an amendment to the 2010 Stock Incentive Plan to increase the total number of shares of common stock reserved for issuance under the plan to 3,170,000 shares, subject to amendment of our Articles of Incorporation to increase our authorized common stock. On March 29, 2016, we held an annual stockholders meeting, at which our stockholders approved the Amended 2010 Stock Incentive Plan and an amendment of our Articles of Incorporation to increase our authorized common stock to 30,000,000 shares.

At March 31, 2017, we had 2,241,549 shares available under this plan.

2012 DIRECTORS COMPENSATION PROGRAM

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

At March 31, 2017, we had issued 26,757 options under the 2005 program to outside directors and 79,309 options to employee-directors, 21,756 outside directors' options had been forfeited, 5,000 outside directors' options had been exercised, 79,309 employee-directors' options had been forfeited and no options under the 2005 program remained outstanding.

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

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 as set forth below. 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 consultant recommended beneficial ownership targets, which we previously disclosed in our Proxy Statement filed on February 23, 2016, in connection with our Annual Meeting of Stockholders held on March 29, 2016. In connection with the Annual Meeting, our stockholders approved our Amended 2010 Stock Incentive Plan, which included an increase in the number of shares available for grant under the plan in part to accommodate equity awards recommended by the Compensation Committee, and our stockholders approved our executive compensation as disclosed in the Proxy Statement pursuant to Item 402 paragraphs (m) through (q) of Regulation S-K as shown below:

To Mr. James A. Joyce, an aggregate of 634,000 RSUs valued at $6.28 per share, based on the August 9, 2016 closing price of the common stock. 158,500 of the RSUs are deemed vested upon grant and an additional 39,625 RSUs will vest each quarter beginning on January 1, 2017. This grant is intended to increase Mr. Joyce’s beneficial ownership of our common stock to 9.0%, which target was recommended in 2015 and in June 2016 by the compensation consultant engaged by us. Previously, in 2004, the Board had approved a beneficial ownership target of 15% for Mr. Joyce. However, Mr. Joyce has agreed to the modified target of 9.0%.

To Mr. Rodney S. Kenley, an aggregate of 52,000 RSUs valued at $6.28 per share, based on the August 9, 2016 closing price of the common stock. 13,000 of the RSUs are deemed vested upon grant and an additional 3,250 RSUs will vest each quarter beginning on January 1, 2017.

To Mr. James B. Frakes, an aggregate of 52,000 RSUs valued at $6.28 per share, based on the August 9, 2016 closing price of the common stock. 13,000 of the RSUs are deemed vested upon grant and an additional 3,250 RSUs will vest each quarter beginning on January 1, 2017.

To each of our non-employee directors, Mr. Franklyn S. Barry, Jr., Mr. Edward G. Broenniman and Dr. Chetan S. Shah, 16,432 RSUs valued at an aggregate of $105,000, based on the average of the closing prices of the common stock for the five trading days preceding and including August 9, 2016. These grants represent (a) $70,000 worth of RSUs representing two years of grants under the amended 2012 Non-Employee Directors Compensation Program (the “2012 Program”) because more than two years have elapsed since Messrs. Barry and Broenniman and Dr. Shah received grants under the program, all of which RSUs are deemed vested upon grant and (b) $35,000 worth of RSUs representing the grant covering the fiscal year ending March 31, 2017, of which one-quarter were deemed vested upon grant and the remaining portion vested ratably at September 30, 2016, at December 31, 2016 and at March 31, 2017.

The RSUs were granted under our Amended 2010 Stock Incentive Plan and we recorded expense of $2,076,535 in the fiscal year ended March 31, 2017 related to the RSU grants.

CHANGES TO 2012 NON-EMPLOYEE DIRECTORS COMPENSATION PROGRAM

In July 2012, the Board approved the 2012 Program, which modified and superseded the 2005 Directors Compensation Program that had been in effect previously. On June 6, 2014, the Board approved certain changes to the 2012 Program, and on August 9, 2016, the Board approved further modifications to the program. Under the modified 2012 Program, in which only non-employee directors may participate, a new eligible director will receive an initial grant of $50,000 worth of RSUs or, at the discretion of the Board, options to acquire shares of Common Stock. RSUs granted under this provision will be valued based on the average of the closing prices of the Common Stock for the five trading days preceding and including the date of grant and will vest at a rate determined by the Board in its discretion. Options granted under this provision will be valued at the exercise price, which will be based on the average of the closing prices of the Common Stock for the five trading days preceding and including the date of grant. Such options will have a term of ten years and will vest at a rate determined by the Board in its discretion.

At the beginning of each fiscal year, each existing director eligible to participate in the 2012 Program will receive a grant of $35,000 worth of RSUs or, at the discretion of the Board, options to acquire shares of Common Stock. RSUs granted under this provision will be valued based on the average of the closing prices of the Common Stock for the five trading days preceding and including the first day of the fiscal year (or preceding and including the date of grant, if such grant is not made on the first day of the fiscal year) and will vest at a rate determined by the Board in its discretion. Options granted under this provision will be valued at the exercise price, which will be based on the average of the closing prices of the Common Stock for the five trading days preceding and including the first day of the fiscal year (or preceding and including the date of grant, if such grant is not made on the first day of the fiscal year). Such options will have a term of ten years and will vest at a rate determined by the Board in its discretion.

In lieu of per meeting fees, under the 2012 Program eligible directors will receive an annual Board retainer fee of $30,000. The modified 2012 Program also provides for the following annual retainer fees: Audit Committee Chair - $5,000, Compensation Committee chair - $5,000, Nominating Committee Chair - $5,000, Audit Committee member - $4,000, Compensation Committee member - $4,000 and Lead independent director (currently an open position) - $15,000.

The RSU grants and the changes to the 2012 Program were approved and recommended by our Compensation Committee prior to approval by the Board.

RSUs outstanding that have vested and are expected to vest as of March 31, 2017 are as follows:

	Number of RSUs
Vested	46,125
Expected to vest	507,375
Total	553,500

During the fiscal year ended March 31, 2017, 36,150 RSUs held by our outside directors were exchanged into the same number of shares of our common stock. As two of our three outside directors elected to return 40% of their RSU's in exchange for cash in order to pay their withholding taxes on the share issuances, 13,146 of the RSUs were cancelled and we paid a total of $75,550 in cash to those two outside directors.

Also during the fiscal year ended March 31, 2017, 184,500 RSUs held by our executives were exchanged into the same number of shares of our common stock. Upon vesting, the RSUs held by our executives were net share-settled to cover the required withholding tax and the remaining amount is converted into an equivalent number of shares of common stock. Total payments for the employees' tax obligations to the taxing authorities are reflected as a financing activity within the Consolidated Statements of Cash Flows. These net-share settlements had the effect of share repurchases by the Company as they reduced and retired the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to the Company. As a result of the net share-settlements, 70,786 of the RSUs were cancelled and we issued a net 113,714 shares to our executives.

STAND-ALONE GRANTS

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

STOCK OPTION ACTIVITY

There were no stock option grants during the fiscal years ended March 31, 2017 and March 31, 2016. There was no stock option activity during the fiscal year ended March 31, 2017 other than the expiration of 6,500 stock options during the period.

The following is a summary of the stock options outstanding at March 31, 2017 and 2016 and the changes during the years then ended:

	Fiscal Year Ended March 31,			
	2017		2016	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	438,547	$ 10.94	501,690	$ 11.00
Granted	–	N/A	–	$ N/A
Exercised	–	N/A	–	$ N/A
Cancelled/Forfeited	(6,500)	$ 7.96	(63,143)	$ 11.45
Outstanding, end of year	432,047	$ 10.98	438,547	$ 10.94
Exercisable, end of year	414,547	$ 11.24	388,414	$ 11.53
Weighted average estimated fair value of options granted		N/A		$ N/A

The detail of the options outstanding and exercisable as of March 31, 2017 is as follows:

Exercise Prices	Options Outstanding Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Options Exercisable Number Outstanding	Weighted Average Exercise Price
$3.80 - $9.50	184,047	6.70 years	$ 6.82	166,547	$ 6.86
$12.50	163,000	3.39 years	$ 12.50	163,000	$ 12.50
$18.00 - $20.50	85,000	1.02 years	$ 19.03	85,000	$ 19.03
	432,047			414,547	

We recorded stock-based compensation expense related to share issuances and to options granted totaling $2,186,309 and $202,844 for the fiscal years ended March 31, 2017 and 2016, respectively. These expenses were recorded as stock compensation included in payroll and related expenses in the accompanying consolidated statement of operations for the years ended March 31, 2017 and 2016.

Our total stock-based compensation for fiscal years ended March 31, 2017 and 2016 included the following:

	Fiscal Year Ended March 31, 2017	March 31, 2016
Vesting of stock options	$2,186,309	$202,844
Total Stock-Based Compensation	$2,186,309	$202,844

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 fiscal year ended March 31, 2017 was insignificant.

As of March 31, 2017, we had $3,203,208 of remaining unrecognized stock-based compensation expense, which is expected to be recognized over a weighted average remaining vesting period of 2.62 years.

On March 31, 2017, our stock options had a negative intrinsic value since the closing price on that date of $3.27 per share was below the weighted average exercise price of our stock options.

6. RELATED PARTY TRANSACTIONS

DUE TO RELATED PARTIES

Historically, certain of our officers and other related parties have advanced us funds, agreed to defer compensation and/or paid expenses on our behalf to cover working capital deficiencies. There were no such related party transactions during the fiscal year ended March 31, 2017 except that we had accrued unpaid Board fees of $28,250 owed to our outside directors as of March 31, 2017.

7. OTHER CURRENT LIABILITIES

Other current liabilities were comprised of the following items:

	March 31, 2017	March 31, 2016
Accrued interest	$5,391	$74,038
Other accrued liabilities	64,076	62,657
Total other current liabilities	$69,467	$136,695

8. INCOME TAXES

For the years ended March 31, 2017 and 2016, we had no income tax expense due to our net operating losses and 100% deferred tax asset valuation allowance.

At March 31, 2017 and 2016, we had net deferred tax assets as detailed below. These deferred tax assets are primarily composed of capitalized research and development costs and tax net operating loss carryforwards. Due to uncertainties surrounding our ability to generate future taxable income to realize these assets, a 100% valuation has been established to offset the net deferred tax assets.

Significant components of our net deferred tax assets at March 31, 2017 and 2016 are shown below:

	YEAR ENDED MARCH 31,	
	2017	2016
Deferred tax assets:		
Capitalized research and development	$3,442,000	$3,442,000
Net operating loss carryforwards	22,060,000	20,126,000
Stock compensation	318,000	–
Total deferred tax assets	25,820,000	23,568,000
Total deferred tax liabilities	–	–
Net deferred tax assets	25,820,000	23,568,000
Valuation allowance for deferred tax assets	(25,820,000)	(23,568,000)
Net deferred tax assets	$–	$–

At March 31, 2017, we had tax net operating loss carryforwards for federal and state purposes approximating $57 million and $45 million, which begin to expire in the year 2023.

The provision for income taxes on earnings subject to income taxes differs from the statutory federal rate for the years ended March 31, 2017 and 2016 due to the following:

	2017	2016
Income taxes (benefit) at federal statutory rate of 34%	$(2,484,000)	$(1,686,000)
State income tax, net of federal benefit	(438,000)	(298,000)
Tax effect on non-deductible expenses and credits	382,000	69,000
Change in valuation allowance[1]	2,540,000	1,915,000
	$–	$–

---

(1) Pursuant to Internal Revenue Code Sections 382, use of our tax net operating loss carryforwards may be limited.

ASC 740, "Income Taxes", clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements, and prescribes recognition thresholds and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under ASC 740, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, ASC 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During the years ended March 31, 2017 and 2016, we did not recognize any interest or penalties relating to tax matters.

At and for the years ended March 31, 2017 and 2016, management does not believe the Company has any uncertain tax positions. Accordingly, there are no unrecognized tax benefits at March 31, 2017 or March 31, 2016.

Our tax returns remain open for examination by the applicable authorities, generally 3 years for federal and 4 years for state. We are currently not under examination by any taxing authorities.

9. DARPA CONTRACT AND RELATED REVENUE RECOGNITION

As discussed in Note 1, we entered into a contract with DARPA on September 30, 2011. Under the DARPA award, we have been engaged to develop a therapeutic device to reduce the incidence of sepsis, a fatal bloodstream infection that often results in the death of combat-injured soldiers. The award from DARPA was a fixed-price contract with potential total payments to us of $6,794,389 over the course of five years. Fixed price contracts require the achievement of multiple, incremental milestones to receive the full award during each year of the contract. Under the terms of the contract, we performed certain incremental work towards the achievement of specific milestones against which we invoiced the government for fixed payment amounts.

Originally, only the base year (year one of the contract) was effective for the parties; however, DARPA subsequently exercised its option on the remaining years of the contract. The milestones were comprised of planning, engineering and clinical targets, the achievement of which in some cases required the participation and contribution of third-party participants under the contract. We commenced work under the contract in October 2011 and completed the contract in September 2016.

In February 2014, DARPA reduced the scope of our contract in years three through five of the contract. The reduction in scope focused our research on exosomes, viruses and blood processing instrumentation. This scope reduction reduced the possible payments under the contract by $858,469 over years three through five.

In the fiscal year ended March 31, 2017, we invoiced the U.S. Government for the final two milestones under our DARPA contract in the aggregate amount of $387,438. In the fiscal year ended March 31, 2016, we invoiced the U.S. Government for four milestones under our DARPA contract in the amount of $863,011.

Fiscal Year Ended March 31, 2017

In the fiscal year ended March 31, 2017, we invoiced the U.S. Government for the final two milestones under our DARPA contract in the aggregate amount of $387,438.

The details of those milestones were as follows:

Milestone 2.6.1.3 - Quantify the degree to which the MERS virus can be extracted from circulation in vitro using miniature Hemopurifiers. The milestone payment was $193,719. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We quantified the degree to which the MERS virus can be extracted from circulation in vitro using miniature Hemopurifiers. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.6.1.4 – Prepare and present Final Report for DARPA. The milestone payment was $193,719. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We prepared and presented the Final Report for DARPA. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Fiscal Year Ended March 31, 2016

During the fiscal year ended March 31, 2016, we invoiced the Defense Advanced Research Projects Agency for four milestones totaling $863,011. The details of those milestones were as follows:

Milestone M6 – Define Aethlon's GMP manufacturing process and revise and upgrade Aethlon's quality procedures and policies to the current state of the art. The milestone payment was $186,164. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that defined our GMP manufacturing process and that we revised and upgraded our quality procedures and policies to the current state of the art for a company of our size. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.5.1.1 - Complete Aethlon’s GMP procedure and establish and maintain all GMP documentation for the company. The milestone payment was $186,164. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we completed our GMP procedures and established and maintained all GMP documentation for the company. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.5.2.2 – Finish construction and begin delivery of 50 prototype cartridges for testing by the systems integrator. The milestone payment was $296,964. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we completed the construction of 50 prototype cartridges and were prepared to deliver the cartridges to the systems integrator. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.6.1.1 – System integrator acceptance of the hemofilter device. The milestone payment was $193,719. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We demonstrated that we completed this milestone by confirmation by the systems integrator that it was accepting the hemofilter device as part of their overall system.

10. 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:

Fiscal Years Ended March 31,

	2017	2016
Revenues:		
Aethlon	$392,073	$886,572
ESI	–	–
Total Revenues	$392,073	$886,572
Operating Losses:		
Aethlon	$(5,945,293)	$(3,953,402)
ESI	(153,064)	(431,432)
Total Operating Loss	$(6,098,357)	$(4,384,834)
Net Losses:		
Aethlon	$(7,153,662)	$(4,527,184)
ESI	(153,064)	(431,432)
Net Loss Before Non-Controlling Interests	$(7,306,726)	$(4,958,616)
Cash:		
Aethlon	$1,558,667	$2,114,285
ESI	1,034	9,452
Total Cash	$1,559,701	$2,123,737
Total Assets:		
Aethlon	$1,698,249	$2,475,686
ESI	28,119	53,430
Total Assets	$1,726,368	$2,529,116
Capital Expenditures:		
Aethlon	$16,433	$9,307
ESI	–	–
Capital Expenditures	$16,433	$9,307
Depreciation and Amortization:		
Aethlon	$22,370	$18,943
ESI	10,043	19,581
Total Depreciation and Amortization	$32,413	$38,524
Interest Expense:		
Aethlon	$304,330	$573,782
ESI	–	–
Total Interest Expense	$304,330	$573,782

11. SUBSEQUENT EVENTS

Management has evaluated events subsequent to March 31, 2017 through the date that the accompanying 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 April 2017, we agreed with two individual investors to exchange 11,497 restricted shares for the cancellation of 22,993 warrants.

In April 2017, we issued 15,000 shares of restricted common stock at a price of $2.24 per share in payment for digital communications consulting services valued at $33,600 based on the value of the services provided.

In April 2014, we terminated a previously recorded but unissued share issuance of 68,000 shares under a fully vested restricted stock grant to our CEO and issued to him 32,674 shares as a net settlement of shares and the Company paid the withholding taxes associated with that share issuance in return for the cancellation of 35,326 shares. The compensation cost of that restricted stock grant had been fully recorded over prior fiscal years, therefore no expense was recorded regarding this net issuance.

In April 2017, 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, 23,655 of the RSUs were cancelled and we issued a net 22,470 shares to our executives.

In the period since March 31, 2017, sold 1,000 shares of common stock under our Common Stock Sales Agreement with H.C. Wainwright. We raised aggregate net proceeds of $1,903 (net of $63 in commissions to H.C. Wainwright and $133 in other offering expenses) under this agreement at an average price of $1.90 per share of net proceeds.

In June 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.

In June 2017, 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. Additionally, we agreed with those investors that they would extend the expiration dates of 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.

12. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT CONTRACTS

We entered into an employment agreement with our Chairman of the Board ("Chairman") effective April 1, 1999. The agreement, which is cancelable by either party upon sixty days' notice, will be in effect until the Chairman retires or ceases to be employed by us. Under the terms of the agreement, if the Chairman is terminated he may become eligible to receive a salary continuation payment in the amount of at least twelve months' base salary, which was increased to $385,000 per year in September 2015.

We entered into an employment agreement with Dr. Richard H. Tullis, Ph. D. ("Tullis") effective January 10, 2000 as our Chief Science Officer ("CSO"). Under the terms of the agreement, if Tullis is terminated he may become eligible to receive a salary continuation payment in the amount of twelve months' base salary, which is $195,000 per year.

In February 2016, we entered into a part-time consulting agreement with Tullis. Under that agreement, Tullis continued to provide services under the terms of a consulting agreement with us. In connection with the change in his employment, Tullis resigned as our Vice President. Under the consulting agreement, Tullis rendered approximately twenty (20) hours per week of such services, for which we paid him a consulting fee of $10,000 per month. The term of the consulting agreement was for an initial sixty-day period and, unless terminated earlier by either party, shall automatically extend for additional one-month periods. Either party to the consulting agreement may terminate it upon 30 day's prior written notice to the other party.

Concurrently with the entry into the consulting agreement, Tullis and the Company mutually agreed to terminate his employment agreement with us.

F-30

In November 2016, the scope of the consulting agreement was amended to reduce the hours from 20 hours per week to 20 hours per month with a reduction in monthly consulting fees from the original $10,000 per month to $4,000 per month.

Then in February 2017, the scope of the consulting agreement was further amended to reduce the hours from 20 hours per month to 10 hours per month with a reduction in monthly consulting fees from $4,000 per month to $2,000 per month.

RETENTION AGREEMENTS

On October 16, 2015, following a recommendation of our Compensation Committee, we approved retention bonus grants to three of our executive officers under a newly established Aethlon Senior Management Retention Program to maintain management stability going forward. The Board approved a $100,000 retention bonus for Mr. James A. Joyce, our Chief Executive Officer, a $50,000 retention bonus for Mr. Rodney S. Kenley, our President, and a $50,000 retention bonus for Mr. James B. Frakes, our Chief Financial Officer.

In connection with the bonus granted to Mr. Joyce, we entered into an amendment of Mr. Joyce's Employment Agreement dated April 1, 1999. Pursuant to the amendment, if within two years of the effective date of the amendment, we terminate Mr. Joyce's employment with us for "Cause" (as defined in his employment agreement) or Mr. Joyce terminates his employment with us other than for "Good Reason" (as defined in his employment agreement), Mr. Joyce must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for "Cause" or termination by Mr. Joyce for "Good Reason," Mr. Joyce will not be required to repay any portion of the bonus received by him.

In connection with the bonus granted to Mr. Kenley, we entered into an amendment of Mr. Kenley's Offer Letter dated October 27, 2010. Pursuant to the amendment, if within two years of the effective date of the amendment, we terminate Mr. Kenley's employment with us for "Cause" (as defined in the amendment) or Mr. Kenley terminates his employment with us other than for "Good Reason" (as defined in the amendment), Mr. Kenley must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for "Cause" or termination by Mr. Kenley for "Good Reason," Mr. Kenley will not be required to repay any portion of the bonus received by him.

In connection with the bonus granted to Mr. Frakes, we entered into a Retention Bonus Agreement with Mr. Frakes. Pursuant to the agreement, if within two years of the effective date of the agreement, we terminate Mr. Frakes' employment with us for "Cause" (as defined in the agreement) or Mr. Frakes terminates his employment with us other than for “Good Reason” (as defined in the agreement), Mr. Frakes must repay in full the amount of the bonus received from us. In the event of his death or disability or termination by us other than for “Cause” or termination by Mr. Frakes for “Good Reason,” Mr. Frakes will not be required to repay any portion of the bonus received by him.

LEASE COMMITMENTS

We currently rent approximately 2,600 square feet of executive office space at 9635 Granite Ridge Drive, Suite 100, San Diego, CA 92123 at the rate of $6,054 per month on a four-year lease that expires in January 2019. 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 $4,838 per month on a one-year lease that expires in November 2016. Our current plans are to renew the lease prior to expiration or to secure alternative lab space in the San Diego area.

Our Exosome Sciences, Inc. subsidiary previously rented approximately 2,055 square feet of office and laboratory space at 11 Deer Park Drive, South Brunswick, NJ at the rate of $3,917 per month on a one-year lease that expired in October 2015. In October 2015, Exosome Sciences, Inc. relocated to a different suite at the same office complex. That new suite was comprised of approximately 541 square feet of office and laboratory space and is located at 9 Deer Park Drive, South Brunswick, NJ at the rate of $1,352 per month under a month to month lease basis. In January 2016, we exercised our 30-day notice to terminate the Exosome Sciences’ lease in New Jersey as part of a consolidation of our laboratory operations in San Diego.

Rent expense, which is included in general and administrative expenses, approximated $151,000 and $144,000 for the fiscal years ended March 31, 2017 and 2016, respectively. As of March 31, 2017, our commitments under the lease agreements are as follows:

	Fiscal Year Ending 2018		2019	
9635 Granite Ridge Drive, Suite 100, San Diego, CA 92123 office lease	$	78,156	$	21,446
11585 Sorrento Valley Road, Suite 109, San Diego, CA 92121 office lease		47,054		–
Total Lease Commitments	$	125,210	$	21,446

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.

F-32

AETHLON MEDICAL, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2017 (Unaudited)	March 31, 2017
ASSETS		
Current assets		
Cash	$5,610,799	$1,559,701
Prepaid expenses and other current assets	14,537	37,551
Total current assets	5,625,336	1,597,252
Property and equipment, net	32,398	29,223
Patents and patents pending, net	78,123	84,996
Deposits	14,897	14,897
Total assets	$5,750,754	$1,726,368
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$211,406	$484,423
Due to related parties	64,466	57,866
Other current liabilities	60,534	69,467
Total current liabilities	336,406	611,756
Convertible notes payable, net	810,866	519,200
Total liabilities	1,147,272	1,130,956
Commitments and Contingencies (Note 13)		
Stockholders' Equity		
Common stock, par value $0.001 per share; 30,000,000 shares authorized as of December 31, 2017 and March 31, 2017; 15,367,658 and 8,797,086 shares issued and outstanding as of December 31, 2017 and March 31, 2017, respectively	15,368	8,796
Additional paid-in capital	102,820,906	94,445,739
Accumulated deficit	(98,138,853)	(93,778,156)
Total Aethlon Medical, Inc. stockholders' equity before noncontrolling interests	4,697,421	676,379
Noncontrolling interests	(93,939)	(80,967)
Total stockholders' equity	4,603,482	595,412

Total liabilities and stockholders' equity	$5,750,754	$1,726,368

See accompanying notes.

F-33

AETHLON MEDICAL, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Month Periods Ended December 31, 2017 and 2016

(Unaudited)

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2016
REVENUES				
Government contract revenue	$74,813	$–	$74,813	$392,073
OPERATING EXPENSES				
Professional fees	439,117	416,866	1,165,318	1,495,597
Payroll and related expenses	663,245	635,698	1,911,553	2,793,888
General and administrative	136,078	182,982	557,991	696,662
Total operating expenses	1,238,440	1,235,546	3,634,862	4,986,147
OPERATING LOSS	(1,163,627)	(1,235,546)	(3,560,049)	(4,594,074)
OTHER EXPENSE (INCOME)				
Interest and other debt expenses	55,912	36,565	306,495	115,308
Loss on share for warrant exchanges	–	–	130,214	–
(Gain)/loss on debt extinguishment	–	(58,691)	376,909	558,198
Warrant repricing expense	–	–	–	345,841
Total other expense (income)	55,912	(22,126)	813,618	1,019,347
NET LOSS BEFORE NONCONTROLLING INTERESTS	(1,219,539)	(1,213,420)	(4,373,667)	(5,613,421)
LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(4,532)	(7,689)	(12,972)	(23,088)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(1,215,007)	$(1,205,731)	$(4,360,695)	$(5,590,333)
BASIC AND DILUTED LOSS PER COMMON SHARE	$(0.08)	$(0.15)	$(0.40)	$(0.72)
	14,950,701	7,927,031	10,927,106	7,768,682

WEIGHTED AVERAGE NUMBER OF COMMON
SHARES OUTSTANDING – BASIC AND DILUTED

See accompanying notes.

F-34

AETHLON MEDICAL, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended December 31, 2017 and 2016

(Unaudited)

	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2016
Cash flows from operating activities:		
Net loss	$(4,373,667)	$(5,613,421)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	27,402	26,365
Stock based compensation	887,607	1,880,150
Warrant repricing expense	–	345,841
Common stock issued for services	33,600	–
Loss on share for warrant exchanges	130,214	–
Loss on debt extinguishment	376,909	558,198
Amortization of debt discount and deferred financing costs	215,376	65,637
Changes in operating assets and liabilities:		
Accounts receivable	–	199,471
Prepaid expenses and other current assets	23,014	21,522
Accounts payable and other current liabilities	(219,806)	51,053
Due to related parties	6,600	(86,750)
Net cash used in operating activities	(2,892,751)	(2,551,934)
Cash flows from investing activities:		
Purchases of property and equipment	(23,705)	(2,961)
Net cash used in investing activities	(23,705)	(2,961)
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net	7,166,081	554,306
Proceeds from the issuance of convertible notes payable, net	–	577,460
Cash paid for repurchase of restricted stock units	(198,527)	(71,993)
Net cash provided by financing activities	6,967,554	1,059,773
Net increase (decrease) in cash	4,051,098	(1,495,122)
Cash at beginning of period	1,559,701	2,123,737
Cash at end of period	$5,610,799	$628,615

Supplemental disclosures of non-cash investing and financing activities:

Issuance of shares under conversions of convertible notes payable and related accrued interest	$362,765	$61,766
Issuance of shares under vested restricted stock units	$120	$33
Recorded debt discount on convertible notes	$–	$863,868
Issuance of shares under cashless warrant exchanges	$–	$3
Reclassification of accrued interest to convertible notes payable	$–	$85,031

See accompanying notes.

F-35

AETHLON MEDICAL, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 31, 2017

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

ORGANIZATION

Aethlon Medical, Inc. and subsidiary (collectively, "Aethlon", the "Company", "we" or "us") are 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 nine months ended December 31, 2017, 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, 2017.

BASIS OF PRESENTATION

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, 2017, included in the Company's Annual Report on Form 10-K filed with the SEC on June 28, 2017. The accompanying unaudited condensed consolidated financial statements include the accounts of Aethlon Medical, Inc. and its majority-owned subsidiary. All significant intercompany 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 nine months ended December 31, 2017. 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, 2017 has been derived from the audited consolidated balance sheet at March 31, 2017, contained in the above referenced 10-K. The results of operations for the nine months ended December 31, 2017 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 December 31, 2017 to be sufficient to fund the Company’s operations for at least twelve months from the issuance date of these interim 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 and nine months ended December 31, 2017 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 December 31, 2017 and 2016, a total of 9,143,480 and 3,810,642 potential common shares, respectively, 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 nine month periods ended December 31, 2017 and 2016, which are included in various operating expense line items in the accompanying condensed consolidated statements of operations. Our research and development expenses in those periods were as follows:

	December 31, 2017	December 31, 2016
Three months ended	$129,207	$178,440
Nine months ended	$462,640	$497,075

4. FUTURE ACCOUNTING PRONOUNCEMENTS

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, and have not yet concluded whether any such pronouncements will have a significant effect on our future consolidated financial statements.

Regarding the new accounting standard on revenue recognition, ASU 2014-09 (Topic 606), which will be effective on April 1, 2018, management believes that as long as its contracts with government entities consist of firm, fixed price arrangements with payments that are triggered by achieving contractually stated milestones that new standard will not have a significant effect on our future consolidated financial statements.

5. CONVERTIBLE NOTES PAYABLE, NET

Convertible Notes Payable, Net consisted of the following at December 31, 2017:

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Convertible Notes Payable, Net – Non-Current Portion:				
November 2014 10% Convertible Notes	$612,811	$ (112,194)	$500,617	$19,066
December 2016 10% Convertible Notes	379,780	(69,531)	310,249	11,820
Total Convertible Notes Payable, Net	$992,591	$ (181,725)	$810,866	$30,886

During the nine months ended December 31, 2017, we recorded interest expense of $87,641 related to the contractual interest rates of our convertible notes and interest expense of $215,376 related to the amortization of the note discount for a total interest expense of $303,017 related to our convertible notes. All of the unamortized discount at December 31, 2017 related to the note discount established upon the June 2017 amendment to both the November 2014 10% Convertible Notes and the December 2016 10% Convertible Notes (see below).

During the nine months ended December 31, 2016, we recorded interest expense of $47,730 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 $37,996 related to the amortization of note discounts for a total interest expense of $113,367 related to our convertible notes.

Convertible Notes Payable, Net consisted of the following at March 31, 2017 (our most recent fiscal year end):

	Principal	Unamortized Discount	Net Amount	Accrued Interest
Convertible Notes Payable, Net – Non-Current Portion:				
November 2014 10% Convertible Notes	$612,811	$ (275,363)	$337,448	$ 2,555
December 2016 10% Convertible Notes	680,400	(498,648)	181,752	2,836
Total Convertible Notes Payable, Net	$1,293,211	$ (774,011)	$519,200	$ 5,391

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 December 31, 2017	$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 nine months ended December 31, 2017	(300,620)
Balance as of December 31, 2017	$379,780

6. EQUITY TRANSACTIONS IN THE NINE MONTHS ENDED DECEMBER 31, 2017

October 2017 Public Offering

On October 4, 2017, we consummated a public offering of 5,454,546 shares of common stock and warrants to purchase 5,454,546 shares of common stock, for total gross proceeds of $6.0 million. The offering was priced at $1.10 per unit with each unit comprised of one share of common stock and one common stock purchase warrant. Neither the warrants nor the units are listed on an exchange and therefore do not trade. The warrants carry a five-year term with an exercise price of $1.10 per share. The net proceeds of the offering were $5,289,735. H.C. Wainwright & Co. acted as exclusive placement agent for the offering.

Warrant Exercises

In December 2017, four investors that participated in the October 2017 Public Offering exercised 218,600 warrants for aggregate cash proceeds to us of $240,460 before expenses.

Common Stock Sales Agreement with H.C. Wainwright

On June 28, 2016, we entered into a Common Stock Sales Agreement (the “Agreement”) with H.C. Wainwright & Co., LLC (“H.C. Wainwright”) which establishes an at-the-market equity program pursuant to which we may offer and sell shares of our common stock from time to time as set forth in the Agreement. The Agreement provides for the sale of shares of our common stock having an aggregate offering price of up to $12,500,000 (the “Shares”).

Subject to the terms and conditions set forth in the Agreement, H.C. Wainwright will use its commercially reasonable efforts consistent with its normal trading and sales practices to sell the Shares from time to time, based upon our instructions. We have provided H.C. Wainwright with customary indemnification rights, and H.C. Wainwright will be entitled to a commission at a fixed rate equal to three percent (3.0%) of the gross proceeds per Share sold. In addition, we have agreed to pay certain expenses incurred by H.C. Wainwright in connection with the Agreement, including up to $50,000 of the fees and disbursements of their counsel. The Agreement will terminate upon the sale of all of the Shares under the Agreement unless terminated earlier by either party as permitted under the Agreement (see Note 14).

Sales of the Shares, if any, under the Agreement shall be made in transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act, including sales made by means of ordinary brokers' transactions, including on the Nasdaq Capital Market, at market prices or as otherwise agreed with H.C. Wainwright. We have no obligation to sell any of the Shares, and, at any time, we may suspend offers under the Agreement or terminate the Agreement.

In July 2016, we commenced sales of common stock under our Common Stock Sales Agreement with H.C. Wainwright. In the six months ended September 30, 2017, we raised aggregate net proceeds of $1,650,314 (net of $51,157 in commissions to H.C. Wainwright and $3,750 in other offering expenses) under this agreement through the sale of 601,504 shares at an average price of $2.74 per share of net proceeds.

In connection with our October 2017 Public Offering (see above), we agreed to restrict our ability to use the ATM facility for a 90 day period immediately post-closing.

Restricted Shares Issued for Services

During the nine months ended December 31, 2017, we issued 15,000 shares of restricted common stock at a price of $2.24 per share, the market price at time of issuance, in payment for investor relations consulting services valued at $33,600 based on the grant date closing market price of our common stock.

Share for Warrant Exchanges

During the nine months ended December 31, 2017, we agreed with two individual investors to exchange 11,497 restricted shares for the cancellation of 22,993 warrants and 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 also agreed with those institutional investors that they would extend the expiration dates of 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 (see Note 5).

Additionally, we entered into an agreement with a former placement agent to issue 5,500 restricted shares in exchange for the cancellation of 11,000 warrants held by that placement agent. 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. Based upon the fair value of the shares issued and warrants exchanged, we recorded a loss of $130,214 during the nine months ended December 31, 2017 for all of the above share for warrant exchanges.

Stock Option Issuances

During the nine months ended December 31, 2017, we issued options to four of our employees to purchase 34,500 shares of common stock at an exercise price of $1.68 per share, the closing price on the date of the approval of the option grants by our compensation committee (see Note 9).

Termination of Restricted Share Grant

During the nine months ended December 31, 2017, we terminated a previously recorded but unissued share issuance of 68,000 shares under a fully vested restricted stock grant to our CEO and issued to him 32,674 shares as a net settlement of shares and the Company paid the withholding taxes associated with that share issuance in return for the cancellation of 35,326 shares. The compensation cost of that restricted stock grant had been fully recorded over prior fiscal years, therefore no expense was recorded regarding this net issuance.

Restricted Stock Unit Grants to Directors and Executive Officers

On August 9, 2016, our Board of Directors granted RSUs to certain of our officers and directors and effective November 7, 2017, 127,659 additional RSUs were granted to our directors pursuant to the 2012 Non-Employee Directors Compensation Program. The RSUs represent the right to be issued on a future date shares of our common stock for vested RSUs.

During the nine months ended December 31, 2017, 138,375 vested 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, 71,081 of the RSUs were cancelled and we issued a net 67,294 shares to our executives (see Note 9).

During the nine months ended December 31, 2017, 63,829 RSUs held by our outside directors were exchanged into the same number of shares of our common stock. As one of our three outside directors elected to return 40% of his RSUs in exchange for cash in order to pay his withholding taxes on the share issuances, 10,638 of the RSUs were cancelled and we paid $12,127 in cash to that outside director (see Note 9).

7. RELATED PARTY TRANSACTIONS

Due to Related Parties

During the three months ended December 31, 2017, we accrued unpaid Board fees of $35,350 which are owed to our outside directors as of December 31, 2017. On March 31, 2017, we had accrued unpaid board fees of $28,250 owed to our outside directors.

8. OTHER CURRENT LIABILITIES

Other current liabilities were comprised of the following items:

	December 31, 2017	March 31, 2017
Accrued interest	$ 30,886	$ 5,391
Other accrued liabilities	29,648	64,076
Total other current liabilities	$ 60,534	$ 69,467

9. STOCK COMPENSATION

The following tables summarize share-based compensation expenses relating to Restricted Stock Units ("RSU"s) and options granted and the effect on basic and diluted loss per common share during the three and nine month periods ended December 31, 2017 and 2016:

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2016
Vesting of stock options and restricted stock units	$ 323,162	$ 306,159	$ 887,607	$ 1,880,150
Total stock-based compensation expense	$ 323,162	$ 306,159	$ 887,607	$ 1,880,150
Weighted average number of common shares outstanding – basic and diluted	14,950,701	7,927,031	10,927,106	7,768,682
Basic and diluted loss per common share attributable to stock-based compensation expense	$ (0.02)	$ (0.04)	$ (0.08)	$ (0.24)

All of the stock-based compensation expense recorded during the nine months ended December 31, 2017 and 2016, which totaled $887,607 and $1,880,150, respectively, is included in payroll and related expense in the accompanying condensed consolidated statements of operations. Stock-based compensation expense recorded during the nine months ended December 31, 2017 and 2016 represented an impact on basic and diluted loss per common share of $(0.08) and $(0.24), respectively.

We review share-based compensation on a quarterly basis for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The cumulative effect of adjusting the forfeiture rate for all expense amortization is recognized in the period the forfeiture estimate is changed. The effect of forfeiture adjustments for the nine months ended December 31, 2017 was insignificant.

Restricted Stock Unit Grants to Directors and Executive Officers

On August 9, 2016, our Board of Directors granted RSUs to certain of our officers and directors and effective November 7, 2017, 127,659 additional RSUs were granted to our directors pursuant to the 2012 Non-Employee Directors Compensation Program. 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 $842,095 in the nine months ended December 31, 2017 related to the RSU grants.

RSUs outstanding that have vested and are expected to vest as of December 31, 2017 are as follows:

	Number of RSUs
Vested	46,125
Expected to vest	432,830
Total	478,955

During the nine months ended December 31, 2017, 138,375 vested 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, 71,081 of the RSUs were cancelled and we issued a net 67,294 shares to our executives.

During the nine months ended December 31, 2017, 63,829 RSUs held by our outside directors were exchanged into the same number of shares of our common stock. As one of our three outside directors elected to return 40% of his RSUs in exchange for cash in order to pay his withholding taxes on the share issuances, 10,638 of the RSUs were cancelled and we paid $12,127 in cash to that outside director.

Stock Option Activity

During the nine months ended December 31, 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. There were no stock option grants during the nine months ended December 31, 2016.

Options outstanding that have vested and are expected to vest as of December 31, 2017 are as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years
Vested	432,047	$ 10.98	3.64
Expected to vest	27,000	$ 1.68	9.46
Total	459,047		

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 nine months ended December 31, 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 nine months ended December 31, 2017 is presented below:

	Amount	**Range of Exercise Price**	**Weighted Average Exercise Price**
Stock options outstanding at March 31, 2017	432,047	$3.80-$20.50	$10.98
Exercised	–	–	–
Granted	27,000	$1.68	$1.68
Cancelled/Expired	–	–	–
Stock options outstanding at December 31, 2017	459,047	$1.68-$20.50	$10.44
Stock options exercisable at December 31, 2017	432,047	$3.80-$20.50	$10.98

On December 31, 2017, our stock options had no intrinsic value since the closing price on that date of $1.13 per share was below the weighted average exercise price of our stock options.

At December 31, 2017, there was approximately $2.2 million of unrecognized compensation cost related to share-based payments, which is expected to be recognized over a weighted average period of 1.72 years.

10. WARRANTS

During the nine months ended December 31, 2017, we issued 5,618,182 warrants, including 163,636 warrants issued to the placement agent, H.C. Wainwight & Co., in connection with our October 2017 Public Offering (see Note 6). Those warrants have a five year term and have an exercise price of $1.10 per share.

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, with respect to warrants utilizing the Binomial Lattice option pricing models, issued during the nine months ended December 31, 2017:

Risk free interest rate	1.38% - 1.92%
Average expected life	5 years
Expected volatility	100.2% - 111.1%
Expected dividends	None

A summary of warrant activity during the nine months ended December 31, 2017 is presented below:

	Amount	Range of Exercise Price	Weighted Average Exercise Price
Warrants outstanding at March 31, 2017	2,604,096	$2.10 - $12.05	$3.64
Exercised	(218,600)	$1.10	$1.10
Issued	5,618,182	$1.10	$1.10
Cancelled/Expired	(139,357)	$5.00 –$15.00	$6.52
Warrants outstanding at December 31, 2017	7,864,321	$1.10 - $12.05	$1.38
Warrants exercisable at December 31, 2017	7,864,321	$1.10 - $12.05	$1.38

The following outlines the significant weighted average assumptions used to estimate the fair value information presented, with respect to warrants utilizing the Binomial Lattice option pricing models issued during the nine months ended December 31, 2016:

Risk free interest rate	0.79% – 1.38%
Average expected life	3 months – 2.33 years
Expected volatility	65.9% – 111.1%
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.

Based on the above assumptions, we valued the warrants that were exchanged for common stock (see Note 6) during the nine months ended December 31, 2017 at $130,214.

11. GOVERNMENT CONTRACTS AND RELATED REVENUE RECOGNITION

National Institutes of Health (“NIH”)

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 October 2017, we completed the first milestone on this contract and invoiced NIH for the $74,812.50 payment associated with that milestone.

The details of that milestone were as follows:

Milestone HHSN261201700022C-01 – Prepare and present the kick-off presentation to NIH. The milestone payment was $74,812.50. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We prepared and presented the kick-off presentation to NIH. The report was accepted by NIH and the invoice was submitted thereafter.

Defense Advanced Research Projects Agency (“DARPA”)

We entered into a contract with DARPA on September 30, 2011. Under the DARPA award, we have been engaged to develop a therapeutic device to reduce the incidence of sepsis, a fatal bloodstream infection that often results in the death of combat-injured soldiers. The award from DARPA was a fixed-price contract with potential total payments to us of $6,794,389 over the course of five years. Fixed price contracts require the achievement of multiple, incremental milestones to receive the full award during each year of the contract. Under the terms of the contract, we performed certain incremental work towards the achievement of specific milestones against which we invoiced the government for fixed payment amounts.

Originally, only the base year (year one of the contract) was effective for the parties; however, DARPA subsequently exercised its option on the remaining years of the contract. The milestones were comprised of planning, engineering and clinical targets, the achievement of which in some cases required the participation and contribution of third-party participants under the contract. We commenced work under the contract in October 2011 and completed the contract in September 2016.

In February 2014, DARPA reduced the scope of our contract in years three through five of the contract. The reduction in scope focused our research on exosomes, viruses and blood processing instrumentation. This scope reduction reduced the possible payments under the contract by $858,469 over years three through five.

The DARPA contract concluded on September 30, 2016.

In the nine months ended December 31, 2016, we invoiced the U.S. Government for the final two milestones under our DARPA contract in the aggregate amount of $387,438.

The details of those milestones were as follows:

Milestone 2.6.1.3 - Quantify the degree to which the MERS virus can be extracted from circulation in vitro using miniature Hemopurifiers. The milestone payment was $193,719. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We quantified the degree to which the MERS virus can be extracted from circulation in vitro using miniature Hemopurifiers. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

Milestone 2.6.1.4 – Prepare and present Final Report for DARPA. The milestone payment was $193,719. Management considers this milestone to be substantive as it was not dependent on the passage of time nor was it based solely on another party's efforts. We prepared and presented the Final Report for DARPA. The report was accepted by the contracting officer's representative and the invoice was submitted thereafter.

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:

	Nine Months Ended December 31,	
	2017	2016
Revenues:		
Aethlon	$74,813	$392,073
ESI	–	–
Total Revenues	$74,813	$392,073
Operating Losses:		

Aethlon	$(3,495,189)	$(4,478,631)
ESI	(64,860)	(115,443)
Total Operating Loss	$(3,560,049)	$(4,594,074)
Net Losses:		
Aethlon	$(4,308,807)	$(5,497,978)
ESI	(64,860)	(115,443)
Net Loss Before Non-Controlling Interests	$(4,373,667)	$(5,613,421)
Cash:		
Aethlon	$5,610,061	$625,531
ESI	738	3,084
Total Cash	$5,610,799	$628,615
Total Assets:		
Aethlon	$5,745,031	$752,578
ESI	5,723	37,019
Total Assets	$5,750,754	$789,597
Capital Expenditures:		
Aethlon	$23,705	$2,961
ESI	–	–
Capital Expenditures	$23,705	$2,961
Depreciation and Amortization:		
Aethlon	$27,402	$16,322
ESI	–	10,043
Total Depreciation and Amortization	$27,402	$26,365
Interest Expense:		
Aethlon	$(306,495)	$(115,308)
ESI	–	–
Total Interest Expense	$(306,495)	$(115,308)

13. COMMITMENTS AND CONTINGENCIES

Lease Commitments

We currently rent approximately 2,600 square feet of executive office space at 9635 Granite Ridge Drive, Suite 100, San Diego, CA 92123 at the rate of $6,054 per month on a four-year lease that expires in May 2018. 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 was extended to an expiration date of November 30, 2018.

Rent expense, which is included in general and administrative expenses, approximated $100,000 and $114,000 for the nine month periods ended December 31, 2017 and 2016, 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 December 31, 2017 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.

Warrant Exercises – Subsequent to December 31, 2017, sixteen investors that participated in the October 2017 public offering exercised 852,700 warrants for aggregate cash proceeds to us of $937,970 before expenses.

ATM Sales -- Subsequent to December 31, 2017, we sold common stock under our Common Stock Sales Agreement with H.C. Wainwright (see Note 6) and from those sales raised net proceeds of $454,654 (after deducting $14,123 in commissions to H.C. Wainwright and $1,998 in other offering expenses), utilizing the sales agreement through the sale of 340,000 shares at an average price of $1.34 per share of net proceeds.

Restricted Stock Unit ("RSU") Issuances – In January 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 RSUs in exchange for the Company paying the related withholding taxes on the share issuance, 26,157 of the RSUs were cancelled, and we issued a net 19,968 shares to our executives.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the various expenses previously incurred in connection with the registration of the securities being registered by this registration statement, all of which will be borne by us. All amounts shown are estimates except the Commission registration fee.

Securities and Exchange Commission registration fee	$ 1,601
Transfer agent’s fees and expenses	1,500
Printing and engraving expenses	5,500
Legal fees and expenses	32,500
Accounting fees and expenses	13,000
Total expenses	$ 54,101

Item 14. Indemnification of Directors and Officers.

Nevada Law.

We are incorporated in Nevada. Subsection 1 of Section 78.7502 of the Nevada Revised Statutes empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or other enterprise, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he is not liable pursuant to Section 78.138 of the Nevada Revised Statutes or if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Subsection 7 of Section 78.138 provides that, with certain exceptions, a director or officer is not individually liable to the corporation or its stockholders or creditors for any damages as a result of any act or failure to act in his capacity as a director or officer unless it is proven that (i) his act or failure to act constituted a breach of his fiduciary duties as a director or officer, and (ii) his breach of those duties involved intentional misconduct, fraud or a knowing violation of the law.

Subsection 2 of Section 78.7502 empowers a corporation to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above against expenses, including amounts paid in settlement and attorneys' fees actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted under similar standards, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged by a court of competent jurisdiction to be liable to the corporation or for amounts paid in settlement to the corporation, unless and only to the extent that the court in which such action or suit was brought or other court of competent jurisdiction determines that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

Section 78.7502 further provides that to the extent a director or officer of a corporation has been successful in the defense of any action, suit or proceeding referred to in subsections (1) and (2) thereof, or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith. Subsection 3 of Section 78.751 of the Nevada Revised Statutes provides that the indemnification provided for by Section 78.7502 shall not be deemed exclusive or exclude any other rights to which the indemnified party may be entitled (except that indemnification will generally not be available to a person if a final adjudication establishes that his acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and were material to the cause of action) and that the indemnification shall continue as to directors, officers, employees or agents who have ceased to hold such positions, and to their heirs, executors and administrators. Section 78.752 empowers the corporation to purchase and maintain insurance on behalf of a director, officer, employee or agent of the corporation against any liability asserted against him or incurred by him in any such capacity or arising out of his status as such whether or not the corporation would have the power to indemnify him against such liabilities under Section 78.7502.

By-Laws.

Our by-laws provide for the elimination of the personal liability of our officers, directors, corporate employees and agents to the fullest extent permitted by the provisions of the Nevada Law. Under such provisions, we shall indemnify a director or officer (and may indemnify a corporate employee or agent) who in his capacity as such is made, or threatened to be made, party to any suit or proceeding, if it is determined that such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of our company and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Liability Insurance.

We maintain directors' and officers' liability insurance covering our directors and officers against expenses and liabilities arising from certain actions to which they may become subject by reason of having served in such role, including insurance for claims against these persons brought under securities laws. Such insurance is subject to the coverage amounts, exceptions, deductibles and other conditions set forth in the policy as in effect at the time of a claim, if any. There is no assurance that we will maintain liability insurance for our directors and officers.

Public Policy Limitations.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by one of our directors, officers or controlling persons in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Item 15. Recent Sales of Unregistered Securities.

We have sold or issued the following securities not registered under the Securities Act in reliance upon the exemption from registration pursuant to Section 4(a)(2) of the Securities Act or Regulation D of the Securities Act during the three years preceding the filing of this registration statement. Except as stated below, no underwriting discounts or commissions were payable with respect to any of the following transactions.

During the three months ended June 30, 2017 and subsequent thereto through the date of filing this report, we agreed with two individual investors to exchange 11,497 restricted shares for the cancellation of 22,993 warrants.

Also during the three months ended June 30, 2017, 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.

During the three months ended September 30, 2017 and subsequent thereto through the date of filing this report, we agreed with a broker-dealer to exchange 5,500 restricted shares for the cancellation of 11,000 warrants.

During the three months ended December 31, 2017, 63,829 RSUs held by our outside directors were exchanged into the same number of shares of our common stock. As one of our three outside directors elected to return 40% of his RSUs in exchange for cash in order to pay his withholding taxes on the share issuances, 10,638 of the RSUs were cancelled and we paid $12,127 in cash to that outside director.

Equity Issuances in the Fiscal Year Ended March 31, 2017.

Common Stock Sales Agreement with H.C. Wainwright

On June 28, 2016, we entered into a Common Stock Sales Agreement (the "Agreement") with H.C. Wainwright & Co., LLC ("H.C. Wainwright") which establishes an at-the-market equity program pursuant to which we may offer and sell shares of our common stock from time to time as set forth in the Agreement. The Agreement provides for the sale of shares of our common stock having an aggregate offering price of up to $12,500,000 (the "Shares").

Subject to the terms and conditions set forth in the Agreement, H.C. Wainwright will use its commercially reasonable efforts consistent with its normal trading and sales practices to sell the Shares from time to time, based upon our instructions. We have provided H.C. Wainwright with customary indemnification rights, and H.C. Wainwright will be entitled to a commission at a fixed rate equal to three percent (3.0%) of the gross proceeds per Share sold. In addition, we have agreed to pay certain expenses incurred by H.C. Wainwright in connection with the Agreement, including up to $50,000 of the fees and disbursements of their counsel. The Agreement will terminate upon the sale of all of the Shares under the Agreement unless terminated earlier by either party as permitted under the Agreement.

II-2

Sales of the Shares, if any, under the Agreement shall be made in transactions that are deemed to be “at the market offerings” as defined in Rule 415 under the Securities Act, including sales made by means of ordinary brokers’ transactions, including on the Nasdaq Capital Market, at market prices or as otherwise agreed with H.C. Wainwright. We have no obligation to sell any of the Shares, and, at any time, we may suspend offers under the Agreement or terminate the Agreement.

In July 2016, we commenced sales of common stock under our Common Stock Sales Agreement with H.C. Wainwright. In the fiscal year ended March 31, 2017, we raised aggregate net proceeds of $955,206 (net of $29,831 in commissions to H.C. Wainwright and $9,432 in other offering expenses) under this agreement through the sale of 216,078 shares at an average price of $4.42 per share of net proceeds.

Warrant Issuances in July 2016

In July 2016, we issued an aggregate of 2,660 shares of common stock to three investors upon the exercise of previously issued warrants. The warrants were exercised on a cashless or “net” basis. Accordingly, we did not receive any proceeds from such exercises. The cashless exercise of such warrants resulted in the cancellation of previously issued warrants to purchase an aggregate of 19,563 shares of common stock.

Restricted Stock Unit Grants to Directors and Executive Officers

During the fiscal year ended March 31, 2017, 149,864 Restricted Stock Units (“RSUs”) held by our outside directors and executive officers were exchanged into the same number of shares of our common stock (see Stock-Based Compensation below).

Amendment of Warrants Issued in Conjunction with the November 2014 10% Convertible Notes

Under the Second Amendment and Extension of the November 2014 10% Convertible Notes dated June 27, 2016 (See Note 4), we reduced the purchase price of 47,125 Warrants from $8.40 per share to $5.00 per share.

We also issued to the investors new warrants to purchase an aggregate of 30,000 shares of common stock with a purchase price 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 (See Note 4).

Amendment of December 2014 Warrants

On June 27, 2016, we and certain investors (the “Unit Investors”) entered into Consent and Waiver and Amendment agreements (the “CWAs”), relating to an aggregate of 264,000 Warrants to Purchase Common Stock (the “Unit Warrants”) we had issued to the Unit Investors on December 2, 2014 pursuant to a Securities Purchase Agreement dated November 26, 2014 (the “2014 SPA”). In the CWAs, each of the Unit Investors provided its consent under certain restrictive provisions, and waived certain rights, including a right to participate in certain offerings made by us, under the 2014 SPA in order to facilitate the at-the-market equity program described above. Pursuant to the CWAs, we reduced the Exercise Price (as defined in the Unit Warrants) from $15.00 per share of common stock to $5.00 per share of common stock. At any time that the shares of common stock underlying the Unit Warrants are covered by an effective registration statement that permits the public resale of the shares, if the Unit Investors exercise the Unit Warrants, they must do so by a cash exercise, which could yield up to $1,320,000 in proceeds to us.

On June 27, 2016, each of the Unit Investors also entered into a Consent and Waiver providing its consent under certain provisions, and waiving certain rights, including a right to participate in certain offerings made by us, under the 2015 SPA in order to facilitate the at-the-market equity program described above.

In accordance with applicable generally accepted accounting principles in the United States of America (GAAP) for warrant modifications, we measured the change in fair value that arose from the reduction in exercise price and recognized an expense of $345,841, which is included in other (income) expenses in the accompanying condensed consolidated statements of operations.

Warrants Issued in Conjunction with the December 2016 10% Convertible Notes

On December 30, 2016, we entered into a securities purchase agreement (the “Securities Purchase Agreement”) with two accredited investors (collectively, the “Holders”), pursuant to which the Purchasers 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”) (See Note 4).

II-3

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 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.

March 2017 Registered Direct Offering

On March 22, 2017, we entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain institutional investors (the "Investors") for the sale of 575,000 shares (the "Common Shares") of our common stock, par value $0.001 per share (the "Common Stock"), at a purchase price of $3.50 per share, in a registered direct offering. Concurrently with the sale of the Common Shares, pursuant to the Purchase Agreement, we also sold in a private placement warrants to purchase 575,000 shares of Common Stock (the "Warrants"). The aggregate gross proceeds for the sale of the Common Shares and Warrants will be approximately $2 million. Subject to certain ownership limitations, the Warrants will be initially exercisable commencing six months from the issuance date at an exercise price equal to $3.95 per share of Common Stock, subject to adjustments as provided under the terms of the Warrants. The Warrants will be exercisable for five years from the initial exercise date.

The net proceeds to us from the transactions, after deducting the placement agent's fees and expenses (not including the Wainwright Warrants, as defined below), our estimated offering expenses, and excluding the proceeds, if any, from the exercise of the Warrants, were $1,804,250. We intend to use the net proceeds from the transactions for general corporate purposes.

The Common Shares (but not the Warrants or shares issuable upon exercise of the Warrant) were sold by us pursuant to an effective shelf registration statement on Form S-3, which was filed with the Securities and Exchange Commission (the "SEC") on May 5, 2016 and subsequently declared effective on May 12, 2016 (File No. 333-211151) (the "Registration Statement"), and the base prospectus dated as of May 12, 2016 contained therein. We filed a prospectus supplement and the accompanying prospectus with the SEC in connection with this sale of the Common Shares.

The purchase agreement also covered the exchange of 264,000 warrants issued to the purchasers thereunder in December 2014 for 198,000 shares of our common stock. Further, in exchange for certain waivers given by the purchasers and certain other investors in a private placement of the Company in June 2015, the warrants issued in such private placement were amended to (i) reduce the exercise price to $3.95 per share, (ii) make the warrants non-exercisable for a period of six months from the date of amendment, and (iii) extend the term of those warrants by six months.

The Warrants and the shares issuable upon exercise of the Warrants were sold and issued without registration under the Securities Act of 1933 (the "Securities Act") in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act as transactions not involving a public offering and Rule 506 promulgated under the Securities Act as sales to accredited investors, and in reliance on similar exemptions under applicable state laws.

We also entered into an engagement letter (the "Engagement Letter") with Rodman & Renshaw, a unit of H.C. Wainwright & Co., LLC ("Rodman"), pursuant to which Rodman agreed to serve as exclusive placement agent for the issuance and sale of the Common Shares and Warrants. We paid Rodman an aggregate fee equal to 6% of the gross proceeds received by us from the sale of the securities in the transactions. Pursuant to the Engagement Letter, we also agreed to grant to Rodman or its designees warrants to purchase up to 3% of the aggregate number of shares sold in the transaction (the "Rodman Warrants"). The Engagement Letter has a nine-month tail and right of first offer periods, indemnity and other customary provisions for transactions of this nature. The Rodman Warrants have substantially the same terms as the Warrants, except that the exercise price is 125% of $3.50. We also paid Rodman a reimbursement for non-accountable expenses in the amount of $50,000.

Equity Issuances in the Fiscal Year Ended March 31, 2016.

On June 25, 2015, we sold $6,000,000 of units, comprised of common stock and warrants, to 18 accredited investors at a price of $6.30 per unit. Each unit consisted of one share of common stock and 0.75 of a five-year warrant to purchase one share of common stock at an exercise price of $6.30 per share. Accordingly, we issued a total of 952,383 shares of unregistered common stock and warrants to purchase 714,285 shares of common stock. For its services as sole placement agent for the financing, we paid Roth Capital Partners, LLC (“Roth”) a cash fee of $285,512 and expense reimbursement of $75,000 and we issued them a five-year warrant to purchase 32,371 shares of common stock at an exercise price of $6.30 per share. We received $5,591,988 in net proceeds from this financing. As the warrants that were issued to the investors and to Roth were issued in connection with common stock for cash, they were considered issued in connection with the financing transaction and the warrant fair value, which was valued using a binomial lattice model, was recorded to additional paid-in-capital.

In connection with the financing, Mr. James Joyce, our Chief Executive Officer, Mr. James Frakes, our Chief Financial Officer and Dr. Chetan Shah, a director of our company, each agreed to waive their right to exercise certain stock options and warrants held by them representing the right to acquire 402,318 shares of common stock in the aggregate (the “Waivers”). The Waivers were required in order to make a sufficient number of shares of common stock available for issuance and the Waivers expired when we amended our Articles of Incorporation on March 31, 2016, to increase the number of authorized shares of our common stock from 10,000,000 to 30,000,000, following stockholder approval of such amendment at our annual stockholders’ meeting on March 29, 2016.

During the three months ended September 30, 2015, we issued an aggregate of 5,292 shares of common stock to an accredited investor upon the exercise of previously issued warrants. The warrants were exercised on a cashless or “net” basis. Accordingly, we did not receive any proceeds from such exercises. The cashless exercise of such warrants resulted in the cancellation of previously issued warrants to purchase an aggregate of 1,744 shares of common stock.

During the three months ended December 31, 2015, we issued an aggregate of 6,757 unregistered shares of common stock to two investors upon the exercise of previously issued warrants. The warrants were exercised for cash and we received cash proceeds of $14,766 for an average purchase price of $2.19 per share per the terms of the warrants.

Equity Transactions in the Fiscal Year Ended March 31, 2015.

On May 20, 2014, May 23, 2014, June 6, 2014, June 11, 2014 and June 26, 2014, we sold seven accredited investors 43,849 shares of restricted common stock for an aggregate purchase price of $320,800 and an average price of $7.50 per share. The common stock purchase price was calculated as 80% of the average closing price of our common stock for the five-day period immediately preceding the date of each subscription agreement.

On June 24, 2014, we issued the holder of a convertible note 466,365 shares of restricted common stock and five-year warrants to acquire up to 136,190 shares of common stock at an exercise price of $2.10 per share and up to 7,944 shares of common stock at an exercise price of $5.40 per share. We issued the stock and warrants upon the conversion of a combined principal and interest balance of $1,003,200 due under the note. We also issued the holder 1,500 shares of common stock as a service fee for converting the note in full and for agreeing to waive anti-dilution price protection in certain warrants previously issued to the holder by us.

On July 8, 2014, we issued the holder of a convertible note 51,837 shares of restricted common stock and five-year warrants to acquire up to 46,429 shares of common stock at an exercise price of $2.10 per share and up to 2,708 shares of common stock at an exercise price of $5.40 per share. We issued the stock and warrants upon the conversion of the interest balance of $116,970 due under the note and for the holder’s agreement to extend the expiration date of the note. We also issued the holder 500 shares of common stock as a service fee for extending the note, for converting the interest due under the note and for agreeing to waive anti-dilution price protection in certain warrants previously issued to the holder by us.

On August 6, 2014, we issued 7,806 shares of restricted common stock at an average price of $12.00 per share to a consultant in payment for investor relations consulting services valued at $75,000 based on the value of the services provided.

On July 15, 2014, we issued 38,750 shares of restricted common stock to the holders of three convertible notes in exchange for the partial or full conversion of principal and interest in the aggregate amount of $81,375 at a conversion price of $2.10 per share.

On July 24, 2014, we issued an aggregate of 50,079 shares of restricted common stock and a seven-year warrant to issue up to 25,040 shares of common stock at an exercise price of $6.60 per share to Dr. Chetan Shah, one of our directors. We issued the common stock and warrant to Dr. Shah upon the conversion of an aggregate of $220,349 of unpaid principal and accrued interest due under a 10% Convertible Note previously issued to Dr. Shah by us on July 9, 2013.

On September 17, 2014, we issued to the holder of the remaining 2008 10% Convertible Note units consisting of an aggregate of 9,564 shares of restricted common stock and unit warrants to acquire up to an aggregate of 4,782 shares of common stock at an exercise price of $4.80 per share. The units were issued to the note holder upon the conversion of an aggregate of $45,906 of unpaid principal and accrued interest due under the promissory note, which represented the entire amount outstanding under the note.

On July 29, 2014, August 4, 2014 and August 6, 2014, we issued to four investors 53,465 shares of restricted common stock through the cash exercise of eight warrants for $259,474 of cash at an average exercise price of approximately $5.00 per share. As an inducement to those investors, we issued them replacement warrants to acquire up to an aggregate of 53,465 shares of common stock on the same terms as the warrants they exercised.

On August 29, 2014, September 2, 2014 and September 22, 2014, we issued and sold to three accredited investors units consisting of (a) 2,000 restricted shares of our common stock at prices per share ranging from $4.55 to $4.70 and (b) a five-year warrant to purchase 1,000 shares of common stock at exercise prices ranging from $6.80 to $7.15 per share. In total, the investors purchased for cash an aggregate of $90,000 of units. The investors acquired an aggregate of 19,500 shares of common stock and warrants to acquire up to an aggregate of 9,750 shares of common stock.

On November 7, 2014, we issued 3,400 shares of restricted common stock at price of $10.25 per share, along with a cash payment of $50,000, in full repayment of the outstanding principal balance and interest balance on the Law Firm Note.

On October 10, 2014, October 14, 2014 and October 15, 2014, we issued and sold to eight accredited investors units consisting of (a) 2,000 restricted shares of common stock at prices per share ranging from $5.25 to $5.70 and (b) a five-year warrant to purchase 1,000 shares of common stock at exercise prices ranging from $7.70 to $8.35 per share. In total, the investors purchased for cash an aggregate of $502,700 of units. The investors acquired an aggregate of 90,125 shares of common stock and warrants to acquire up to an aggregate of 45,063 shares of common stock.

On October 9, 2014, we issued to an accredited investor units consisting of an aggregate of 36,716 shares of restricted common stock and warrants to acquire up to an aggregate of 18,358 shares of common stock at an exercise price of

$7.70 per share. We issued the units to the investor upon the conversion of an aggregate of $189,087 of unpaid principal and accrued interest due under two promissory notes (the remaining October and November 2009 10% Convertible Note and the April 2010 10% Convertible Note) previously issued to the investor by us. The amounts converted represented the entire principal and interest outstanding under the notes and the notes held by that holder were retired.

On October 17, 2014 and October 20, 2014, we issued an aggregate of 113,422 shares of restricted common stock and seven-year warrants to issue up to an aggregate of 113,422 shares of common stock at exercise prices ranging from $4.30 to $6.25 per share to eight accredited investors. One of the investors is Dr. Shah. The common stock and warrants were issued to the investors upon the cash exercise of previously issued warrants held by them. The investors paid an aggregate of $579,251 upon exercise of the previously outstanding warrants at exercise prices ranging from $4.30 to $6.25 per share.

On October 15, 2014, we issued an aggregate of 70,460 shares of restricted common stock to two accredited investors upon the conversion of an aggregate of $147,965 of unpaid principal and accrued interest due under promissory notes previously issued to the investors by us. The conversion price per share was $2.10.

On November 6, 2014, we sold two accredited investors (i) convertible promissory notes in the aggregate principal amount of $527,780 and (ii) five year warrants to purchase up to 47,123 shares of common stock at a fixed exercise price of $8.40 per share. The convertible promissory notes bear interest at the annual rate of 10% and mature on April 1, 2016. The aggregate gross cash proceeds to us were $415,000 after subtracting legal fees of $35,000; the balance of the principal amount of the notes represents a $27,780 due diligence fee and an original issuance discount. The convertible promissory notes are convertible at the option of the holders into shares of our common stock at a fixed price of $5.60 per share, for up to an aggregate of 94,246 shares of common stock.

On October 21, 2014, we issued an aggregate of 328,463 shares of restricted common stock to three accredited investors upon the cashless exercise of warrants previously issued to the investors by us with an exercise price of $2.10 per share.

On November 12, 2014, we issued 780 shares of restricted common stock to a consultant in payment for investor relations services valued at $8,000 based on the value of the services provided.

On November 18, 2014, we issued an aggregate of 112,500 shares of restricted common stock to two investors upon the conversion of an aggregate of $236,250 of unpaid principal and accrued interest under a promissory note previously issued by us. The conversion price was $2.10 per share.

On November 19, 2014 we issued 285 shares of restricted common stock to an investor upon the cashless exercise of warrants previously issued by us with an exercise price of $5.50 per share.

On November 25, 2014, we issued an aggregate of 214,286 shares of restricted common stock to two accredited investors upon the conversion of an aggregate of $450,000 of unpaid principal and accrued interest due under promissory notes previously issued by us with a conversion price of $2.10 per share.

On November 26, 2014, we authorized the issuance of an aggregate of 88,165 shares of restricted common stock to 38 accredited investors upon the cashless exercise of warrants previously issued to the investors by us with an exercise price of $11.00 per share.

On November 26, 2014, we authorized the issuance of 9,921 shares of restricted common stock to an accredited investor upon the cashless exercise of warrants previously issued by us with an exercise price of $5.50 per share.

On December 2, 2014, we sold $3,300,000 of units, comprised of common stock and warrants, to three affiliated institutional investors at a price of $15.00 per unit. Each unit consisted of one share of common stock and five-year warrants to purchase 1.2 shares of common stock at an exercise price of $15.00 per share. Accordingly, we issued a total of 220,000 shares of restricted common stock and warrants to purchase 264,000 shares of common stock. For its services as sole placement agent for the financing, we paid Roth Capital Partners, LLC a cash fee of $231,000 and expense reimbursement of $25,000 and we issued it a five-year warrant to purchase 11,000 shares of common stock at an exercise price of $15.00 per share.

On December 5, 2014, we issued an aggregate of 3,500 shares of restricted common stock to two affiliated accredited investors upon the cashless exercise of warrants previously issued by us with an exercise price of $2.10 per share.

On January 2, 2015, we issued 47,619 shares of common stock to an accredited investor upon the conversion of $100,000 of unpaid principal due under a promissory note we previously issued to the investor. The conversion price per share was $2.10.

On January 14, 2015, we authorized the issuance of 3,574 shares of common stock to an accredited investor upon the cashless exercise of warrants previously issued by us with an exercise price of $5.50 per share.

On March 16, 2015, we issued 37,265 shares of common stock to an accredited investor upon the conversion of an aggregate of $78,257 of unpaid principal and accrued interest due under a promissory note we previously issued to the investor. The conversion price per share was $2.10.

On March 30, 2015, we issued 13,803 shares of common stock to an accredited investor upon the conversion of an aggregate of $28,988 of unpaid principal and accrued interest due under a promissory note we previously issued to the investor. The conversion price per share was $2.10.

Item 16. Exhibits and Financial Statement Schedules.

Reference is made to the Exhibit Index filed as part of this registration statement. All exhibits have been filed previously unless otherwise noted.

Item 17. Undertakings.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this registration statement (or the most recent post-effective amendment hereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to such information in this registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering; and

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part

of and included in the registration statement as of the date it is first used after effectiveness; provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on February 20, 2018.

AETHLON MEDICAL, INC.,

a Nevada corporation

/s/ James A. Joyce

By: James A. Joyce

Its: Chief Executive Officer

II-9

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James A. Joyce and James B. Frakes, or either of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to file and sign any and all amendments, including post-effective amendments and any registration statement for the same offering that is to be effective under Rule 462(b) of the Securities Act of 1933, as amended, to this registration statement, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ James A. Joyce James A. Joyce	Chairman, Chief Executive Officer, Principal Executive Officer	February 20, 2018
/s/ James B. Frakes James B. Frakes	Chief Financial Officer, Principal Accounting Officer	February 20, 2018
		February 20, 2018
* Edward G. Broenniman	Director	February 20, 2018
* Rodney S. Kenley	Director	February 20, 2018
* Chetan S. Shah, MD	Director	February 20, 2018

* By: /s/ James B. Frakes

James B. Frakes, Attorney-in-Fact

II-10

INDEX TO EXHIBITS

No.	Description
1.1	Engagement Agreement, dated July 28, 2017, between Aethlon Medical, Inc. and H.C. Wainwright & Co., LLC (46)
2.1	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. (formerly, Bishop Equities, Inc.) and Aethlon, Inc. dated March 10, 1999 (1)
2.2	Agreement and Plan of Reorganization Between Aethlon Medical, Inc. (formerly, Bishop Equities, Inc.) and Hemex, Inc. dated March 10, 1999 (1)
3.1	Articles of Incorporation of Aethlon Medical, Inc., as amended (2)
3.2	Bylaws of Aethlon Medical, Inc., as amended (35)
4.1	Form of Common Stock Certificate (3)
4.2	Form of Amended and Restated Warrant dated June 14, 2010 (12)
4.3	Form of Amended and Restated Warrant dated June 14, 2010 (QB) (12)
4.4	Form of Common Stock Purchase Warrant dated March 29, 2012 and April 15, 2012 (14)
4.5	Form of Common Stock Purchase Warrant dated June 19, 2012 (15)
4.6	Form of Common Stock Purchase Warrant dated August 29, 2012 (16)
4.7	Form of Common Stock Purchase Warrant dated October, November and December 2012 (17)
4.8	Form of Common Stock Purchase Warrant dated June 14, 2013 (18)
4.9	Form of Common Stock Purchase Warrant October 30, 2013 (19)
4.10	Form of Common Stock Purchase Warrant November 12, 2013 (20)
4.11	Form of Common Stock Purchase Warrant December 10, 2013 (21)
4.12	Form of Common Stock Purchase Warrant December 30, 2013 (22)

4.13	Form of Amendment to Notes and Warrants dated March 31, 2014 (23)
4.14	Form of Common Stock Purchase Warrant dated June 24, 2014 (24)
4.15	Form of Common Stock Purchase Warrant dated July 8, 2014 (25)
4.16	Form of Common Stock Purchase Warrant dated July 24, 2014 (26)
4.17	Form of Common Stock Purchase Warrant issued August and September 2014 (27)
4.18	Form of Class A Common Stock Purchase Warrant dated November 6, 2014 (27)
4.19	Form of Convertible Promissory Note dated November 6, 2014 (27)

4.20	Form of Common Stock Purchase Warrant issued December 2, 2014 (29)
4.21	Form of Purchase Agent Warrant dated December 2, 2014 (30)
4.22	Form of Warrant to Purchase Common Stock issued June 25, 2015 (32)
4.23	Form of Purchase Agent Warrant issued June 25, 2015 (33)
4.24	Form of Amendment to Notes and Warrants dated June 27, 2016 (40)
4.25	Form of Allonge to Convertible Promissory Note dated June 27, 2016 (40)
4.26	Form of Class A Common Stock Purchase Warrant issued June 27, 2016 (40)
4.27	Form of Consent and Waiver and Amendment dated June 27, 2016 (40)
4.28	Form of Warrant Agreement issued March 22, 2017 (43)
5.1	Opinion of Jolie Kahn, Esq. *
10.1	2000 Stock Option Plan (34)++
10.2	Amended 2010 Stock Incentive Plan (4)
10.3	2005 Directors Compensation Program (34)++
10.4	2012 Directors Compensation Program, as amended on June 6, 2014 (34)++
10.5	Employment Agreement between Aethlon Medical, Inc. and James A. Joyce dated April 1, 1999 (5)++
10.6	Patent License Agreement by and amongst Aethlon Medical, Inc., Hemex, Inc., Dr. Julian L. Ambrus and Dr. David O. Scamurra (6)
10.7	Employment Agreement by and between Aethlon Medical, Inc. and Dr. Richard H. Tullis dated January 10, 2000 (6)++
10.8	Stock Option Agreement by and between Aethlon Medical, Inc. and James A Joyce dated February 23, 2005 (7)++
10.9	Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis dated February 23, 2005 (7)++
10.10	Stock Option Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry, Jr. dated February 23, 2005 (7)++
10.11	Stock Option Agreement by and between Aethlon Medical, Inc. and Ed Broenniman dated February 23, 2005 (7)++

10.12 Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce dated September 9, 2005 (8)++

10.13 Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce dated June 13, 2007 (9)++

10.14 Stock Option Agreement by and between Aethlon Medical, Inc. and James A. Joyce dated December 15, 2008 (10)++

10.15 Stock Option Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry dated December 15, 2008 (10)++

10.16 Stock Option Agreement by and between Aethlon Medical, Inc. and Edward G. Broenniman dated December 15, 2008 (10)++

10.17 Stock Option Agreement by and between Aethlon Medical, Inc. and Richard H. Tullis dated December 15, 2008 (10)++

10.18 Standard Industrial Net Lease by and between Sorrento Business Complex and Aethlon Medical, Inc. dated September 28, 2009 (11)

10.19 Offer of Employment by and between Aethlon Medical, Inc. and Rodney S. Kenley dated October 27, 2010 (13)++

10.20 Stock Option Agreement of Rodney S. Kenley dated October 27, 2010 (13)++

10.21 Unit Subscription Agreement dated March 29, 2012 and April 5, 2012 (14)

10.22 Unit Subscription Agreement dated June 19, 2012 (15)

10.23 Unit Subscription Agreement dated August 29, 2012 (16)

10.24 Unit Subscription Agreement dated October, November and December 2012 (17)

10.25 Unit Subscription Agreement dated June 14, 2013 (18)

10.26 Form of Unit Purchase Agreement dated October 30, 2013 (19)

10.27 Form of Subscription Agreement October 30, 2013 (19)

10.28 Form of Unit Purchase Agreement dated November 12, 2013 (20)

10.29 Form of Subscription Agreement November 12, 2013 (20)

10.30 Form of Unit Purchase Agreement dated December 10, 2013 (21)

10.31 Form of Subscription Agreement December 10, 2013 (21)

10.32 Form of Unit Purchase Agreement dated December 30, 2013 (22)

10.33 Form of Subscription Agreement December 30, 2013 (22)

10.34 Form of Restructuring Agreement dated June 24, 2014 (24)

10.35 Form of Restructuring Agreement dated June 24, 2014 (24)

10.36 Form of Restructuring Agreement dated July 8, 2014 (25)

10.37	Second Amendment to Standard Industrial Net Lease by and between Sorrento Business Complex and Aethlon Medical, Inc. dated October 10, 2014 (3)
10.38	Form of Subscription Agreement dated November 6, 2014 (27)
10.39	Office Lease between T-C Stonecrest LLC and Aethlon Medical, Inc. dated November 13, 2014 (28)
10.40	Securities Purchase Agreement dated November 26, 2014 (29)

10.41 Registration Rights Agreement dated November 26, 2014 (29)

10.42 DARPA Contract dated September 30, 2011 (3) (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

10.43 DARPA Contract Extension dated August 8, 2012 (3)

10.44 DARPA Contract Extension dated September 15, 2013 (3)

10.45 DARPA Contract Extension dated September 29, 2014 (3)

10.46 DARPA Contract Modification dated March 12, 2015 (34) (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

10.47 UCI Clinical Trial Agreement signed April 9, 2015 (31)

10.48 Protocol for UCI Clinical Trial (31)

10.49 Budget for UCI Clinical Trial (31)

10.50 DaVita Master Services Agreement (35)

10.51 First Amendment to DaVita Master Services Agreement (35)

10.52 Work Order #1 under DaVita Master Services Agreement (35) (Portions of this exhibit have been omitted pursuant to a request for confidential treatment.)

10.53 Securities Purchase Agreement dated June 23, 2015 (32)

10.54 Registration Rights Agreement dated June 23, 2015 (32)

10.55 DARPA Contract Extension dated September 25, 2015 (36)

10.56 Amendment No. 1 to Joyce Employment Agreement dated October 16, 2015 (37)++

10.57 Amendment No. 1 to Kenley Offer Letter dated October 16, 2015 (37)++

10.58 Retention Bonus Agreement dated October 16, 2015 (37)++

10.59 Third Amendment to Standard Industrial Net Lease dated October 21, 2015 (38)

10.60 Amendment of Terms dated November 12, 2015 (38)

10.61 Consulting Agreement dated February 9, 2016 (39)

10.62	Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis dated September 27, 2010 (44)++

II-14

10.63 Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis dated July 1, 2013 (44)++

10.64 Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis dated June 6, 2014 (44)++

10.65 Amendment No. 1 to Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis dated December 15, 2008 (44)++

10.66 Amendment No. 1 to Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis dated September 27, 2010 (44)++

10.67 Amendment No. 1 to Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis dated July 1, 2013 (44)++

10.68 Amendment No. 1 to Stock Option Agreement by and between Aethlon Medical, Inc. and Richard Tullis dated June 6, 2014 (44)++

10.69 Common Stock Sales Agreement dated June 28, 2016 between Aethlon Medical, Inc. and H.C. Wainwright & Co., LLC (40)

10.70 Form of Consent and Waiver dated June 27, 2016 (40)

10.71 Aethlon Medical, Inc. 2012 Non-Employee Directors Compensation Program, as Modified on August 9, 2016 (41) ++

10.72 DARPA Contract dated September 30, 2011 (42)

10.73 2012 Non-Employee Directors Compensation Program, as amended August 9, 2016 (45)++

10.74 Stock Unit Agreement by and between Aethlon Medical, Inc. and James A. Joyce dated August 29, 2016 (45)++

10.75 Stock Unit Agreement by and between Aethlon Medical, Inc. and Rodney S. Kenley dated August 29, 2016 (45)++

10.76 Stock Unit Agreement by and between Aethlon Medical, Inc. and James B. Frakes dated August 29, 2016 (45)++

10.77 Stock Unit Agreement by and between Aethlon Medical, Inc. and Franklyn S. Barry, Jr. dated August 29, 2016 (45)++

10.78 Stock Unit Agreement by and between Aethlon Medical, Inc. and Edward G. Broenniman dated August 29, 2016 (45)++

10.79 Stock Unit Agreement by and between Aethlon Medical, Inc. and Chetan S. Shah, MD dated August 29, 2016 (45)++

10.80	Fourth Amendment to Standard Industrial Net Lease by and between AGP Sorrento Business Complex, L.P. and Aethlon Medical, Inc. dated October 5, 2016 (45)
10.81	Form of Securities Purchase Agreement, dated March 22, 2017 (43)
10.82	Form of Engagement Letter, dated March 15, 2017 (43)
10.83	Form of Exchange Agreement (45)
10.84	Fifth Amendment to Standard Industrial Net Lease (47)
14	Code of Ethics (45)

II-15

21.1	List of subsidiaries (3)
23.1	Consent of Independent Registered Public Accounting Firm (Squar Milner LLP) *
23.2	Consent of Jolie Kahn, Esq. (included in Exhibit 5.1) *
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*

---

* Filed herewith

(1) Filed with the Company's Current Report on Form 8-K/A dated March 26, 1999 and incorporated by reference.
(2) Filed with the Company's Registration Statement on Form S-3 (File No. 333-211151) filed on May 5, 2016 and incorporated by reference.
(3) Filed with the Company’s Registration Statement on Form S-1 (File No. 333-201334) filed on December 31, 2014 and incorporated by reference.
(4) Filed with the Company’s Current Report on Form 8-K dated March 30, 2016 and incorporated by reference.
(5) Filed with the Company's Annual Report on Form 10-KSB filed on July 15, 1999 for the year ended March 31, 1999 and incorporated by reference.
(6) Filed with the Company's Annual Report on Form 10-KSB/A filed on September 10, 2004 for the year ended March 31, 2004 and incorporated by reference.
(7) Filed with the Company's Annual Report on Form 10-KSB filed on July 14, 2005 for the year ended March 31, 2005 and incorporated by reference.
(8) Filed with the Company's Current Report on Form 8-K filed on September 12, 2005 and incorporated by reference.
(9) Filed with the Company’s Registration Statement on Form S-8 (File No. 333-168483) filed on August 2, 2010 and incorporated by reference.
(10) Filed with the Company's Current Report on Form 8-K dated December 19, 2008 and incorporated by reference.
(11) Filed with the Company’s Quarterly Report on Form 10-Q filed on November 16, 2009 for the period ended September 30, 2009 and incorporated by reference.
(12) Filed with the Company’s Annual Report on Form 10-K filed on July 2, 2010 for the year ended March 31, 2010 and incorporated by reference.
(13) Filed with the Company’s Current Report on Form 8-K dated November 1, 2010 and incorporated by reference.
(14) Filed with the Company’s Current Report on Form 8-K dated April 6, 2012 and incorporated by reference.
(15) Filed with the Company’s Current Report on Form 8-K dated June 27, 2012 and incorporated by reference.
(16) Filed with the Company’s Current Report on Form 8-K dated September 6, 2012 and incorporated by reference.
(17) Filed with the Company’s Quarterly Report on Form 10-Q filed on February 12, 2013 for the period ended December 31, 2012 and incorporated by reference.

(18) Filed with the Company's Quarterly Report on Form 10-Q filed on August 13, 2013 for the period ended June 30, 2013 and incorporated by reference.
(19) Filed with the Company's Current Report on Form 8-K dated November 6, 2013 and incorporated by reference.
(20) Filed with the Company's Current Report on Form 8-K dated November 20, 2013 and incorporated by reference.
(21) Filed with the Company's Current Report on Form 8-K dated December 16, 2013 and incorporated by reference.
(22) Filed with the Company's Current Report on Form 8-K dated January 7, 2014 and incorporated by reference.
(23) Filed with the Company's Current Report on Form 8-K dated April 4, 2014 and incorporated by reference.
(24) Filed with the Company's Current Report on Form 8-K dated June 30, 2014 and incorporated by reference.
(25) Filed with the Company's Current Report on Form 8-K dated July 10, 2014 and incorporated by reference.
(26) Filed with the Company's Current Report on Form 8-K dated July 28, 2014 and incorporated by reference.
(27) Filed with the Company's Quarterly Report on Form 10-Q filed on November 10, 2014 for the period ended September 30, 2014 and incorporated by reference.

(28) Filed with the Company’s Current Report on Form 8-K/A dated November 19, 2014 and incorporated by reference.
(29) Filed with the Company’s Current Report on Form 8-K dated November 28, 2014 and incorporated by reference.
(30) Filed with the Company’s Current Report on Form 8-K dated December 3, 2014 and incorporated by reference.
(31) Filed with the Company’s Current Report on Form 8-K dated April 15, 2015 and incorporated by reference.
(32) Filed with the Company’s Current Report on Form 8-K dated June 24, 2015 and incorporated by reference.
(33) Filed with the Company’s Current Report on Form 8-K dated June 26, 2015 and incorporated by reference.
(34) Filed with the Company's Registration Statement on Form S-1 (File No. 333-203487) filed on April 17, 2015 and incorporated by reference.
(35) Filed with the Company’s Annual Report on Form 10-K filed on June 26, 2015 for the year ended March 31, 2015 and incorporated by reference.
(36) Filed with the Company’s Current Report on Form 8-K dated September 28, 2015 and incorporated by reference.
(37) Filed with the Company’s Current Report on Form 8-K dated October 22, 2015 and incorporated by reference.
(38) Filed with the Company’s Quarterly Report on Form 10-Q filed on November 16, 2015 for the period ended September 30, 2015 and incorporated by reference.
(39) Filed with the Company’s Current Report on Form 8-K dated February 16, 2016 and incorporated by reference.
(40) Filed with the Company’s Current Report on Form 8-K dated June 28, 2016 and incorporated by reference.
(41) Filed with the Company’s Current Report on Form 8-K dated August 10, 2016 and incorporated by reference.
(42) Filed with the Company’s Quarterly Report for the quarter ended September 30, 2016 dated November 10, 2016 and incorporated by reference.
(43) Filed with the Company’s Current Report on Form 8-K dated March 22, 2017 and incorporated by reference.
(44) Filed with the Company’s Annual Report for the year ended March 31, 2016, dated June 29, 2016
(45) Filed with the Company’s Annual Report for the year ended March 31, 2017, dated June 28, 2017
(46) Filed with the Company’s Registration Statement on Form S-1 (File No. 333-219589) filed on July 31, 2017 and incorporated by reference.
(47) Filed with the Company’s Quarterly Report for the quarter ended September 30, 2017 dated November 2, 2018 and incorporated by reference.

II-17