SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10-KSB

(MARK ONE)

( X ) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended March 31, 1999

OR

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

For transition period from to

Commission File Number 0-21846

BISHOP EQUITIES, INC.
(Name of Small Business issuer in its charter)

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

| 7825 FAY AVENUE, SUITE 200, LAJOLLA, CALIFORNIA | 92037 |
|---|---|
| (Address of Principal Executive Office) | (Zip Code) |

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (619) 456-5777

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SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED: |
|---|---|
| NONE | NONE |

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK -- $.001 PAR VALUE
(TITLE OF CLASS)

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

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-K contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-KSB. X ___

Revenues of the registrant for the fiscal year ended March 31, 1999 were $-0-.

The aggregate market value of the Common Stock held by non-affiliates of the registrant on March 31, 1999 was approximately $15,066,521, based upon the closing bid price of the Common Stock, as reported by the Nasdaq Over-the-Counter Bulletin Board on July 14, 1999.

The number of shares of the Common Stock of the registrant outstanding as of March 31, 1999 was 2,595,000.

Transitional Small Business Disclosure Format (check one):

Yes No X ___

PART I

All statements, other than statements of historical fact, included

in this Form 10-KSB are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Such forward-looking statements involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Bishop Equities, Inc. (the "Company") to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements contained in this Form 10-KSB. Such potential risks and uncertainties include, without limitation, FDA approval of the Company's products and other regulations, patent protection on the Company's proprietary technology, product liability exposure, uncertainty of market acceptance, competition, technological change, and other risk factors detailed herein and in other of the Company's filings with the Securities and Exchange Commission. The forward-looking statements are made as of the date of this Form 10-KSB and the Company assumes no obligation to update the forward-looking statements or to update the reasons actual results could differ from those projected in such forward-looking statements.

## ITEM 1. BUSINESS

### GENERAL

Bishop Equities, Inc. ("Bishop" or the "Company") was incorporated in Nevada in April 1991 to provide a public vehicle for participation in a business transaction through a merger with or acquisition of a private company. In March 1993, Bishop successfully offered its common stock at $6.00 per share through an initial public offering. In March 1999, Bishop began doing business as "Aethlon Medical, Inc." The members of the Board of Directors have adopted a resolution to amend the Company's Articles of Incorporation to formally change the name of the Company from "Bishop Equities, Inc." to "Aethlon Medical, Inc.," subject to shareholder approval.

### REORGANIZATION; ACQUISITION OF AETHLON AND HEMEX

On March 10, 1999, Bishop executed an Agreement and Plan of Reorganization for the Acquisition of All of the Outstanding Stock (the "Aethlon Agreement") of Aethlon, Inc., a California corporation ("Aethlon"). Pursuant to the Aethlon Agreement, Aethlon became a majority-owned subsidiary of the Company.

Also on March 10, 1999, the Company executed an Agreement and Plan of Reorganization for the Acquisition of All of the Outstanding Stock (the "Hemex Agreement") of Hemex, Inc., a Delaware corporation ("Hemex"). Pursuant to the Hemex Agreement, Hemex became a majority-owned subsidiary of the Company.

As of March 31, 1999, the Company has issued 2,083,500 (80%) of the 2,595,000 shares of the Company's Common Stock to the former shareholders of Aethlon and Hemex.

The Company's business is the development and manufacture of medical device technologies. The Company intends to build its business in three ways:

- Complete the commercialization of the Hemex product line of extracorporeal blood purifiers now in clinical trials.
- Develop and exploit new applications of the Hemex platform technology.
- Continue the strategy of acquiring other medical device technologies which can be developed and commercialized on an international basis.

The Company also intends to pursue the acquisition of additional medical technologies.

### THE HEMEX HEMOPURIFIER-TM-

The Hemopurifier-TM- (hereinafter referred to as the "Hemopurifier" or the "DFO Hemopurifier") is a novel, hollow-fiber cartridge containing an immobilized antidote for removing toxic material from the blood. The device is used in extracorporeal circulation systems, which can be similar to those used in hemodialysis, or any one of the simpler aphresis systems used today. The first Hemopurifier product to be commercialized is a device designed for the removal of aluminum. To date, the device has been proven safe in dialysis patients with aluminum intoxication in a Phase I clinical trial approved by the U.S. Food and Drug Administrate ("FDA"). Other initial product markets to be commercialized are Hemopurifiers, which remove iron, lead, and Cisplatin. The Hemopurifier is protected by patents in the United States, Europe, and Japan, with additional patents pending. The size of the potential market for the initial products addressed by the Hemopurifier is estimated by the Company to be approximately $1.2 billion in the U.S. and $3.6 billion worldwide. Potential product applications include Hemopurifiers designed to remove (i) various viruses; (ii) plutonium and other heavy metals; and (iii) drug overdoses.

ADVANTAGES OF THE HEMOPURIFIER DEVICE. The clinical advantages offered by the Hemopurifier device over present treatments are:



1) Toxic material can be selectively removed WITHOUT SIDE EFFECTS, since no substance enters the body. Toxicity of the antidote is eliminated, because it is immobilized in the device rather than injected into the patient.

2) Antidotes of GREATER STRENGTH AND EFFECTIVENESS, compared with antidotes which were sparingly used previously because of their toxicity, can be used in this device without regard for the side effects which would occur if the same substance were in the bloodstream.

3) The device is HIGHLY EFFICIENT. The structure of the Hemopurifier device provides a large surface area for immobilization of a relatively large quantity of antidote, allowing exposure to a large volume of blood in a short period of time.

4) The device is SAFE. In a closed system, the amount of blood retained by the Hemopurifier device is small. No replacement fluid is needed, and no blood transfusions are required. As a result, the risks of volume expansion, blood pressure changes, infections, and blood incompatibility (inherent in blood transfusions) are eliminated. Only the targeted toxic materials are removed. All other blood components remain in the circulation.

5) The device uses well-established extracorporeal applications, similar to hemodialysis, plasmapheresis, or other types of transfusion procedures. These methods are widely used in hospitals and clinics.

APPLICATIONS OF THE HEMOPURIFIER DEVICE. Development work to date has focused principally on Hemopurifier devices for the removal of aluminum, iron, lead, and cisplatin.

Poisoning with aluminum, iron, lead, and platinum are serious problems for which current treatment methods are unsatisfactory. The need for new therapeutic approaches in each case is widely recognized. The number of patients who would benefit from these treatments is estimated to be over one million per year in the U.S. alone. In many of the targeted conditions, patient populations are well identified and currently under some form of treatment, with both patient and physician awaiting the development of more effective treatment without serious side effects. As a result, the market penetration of the metal Hemopurifier devices should be relatively quick.

The long-range goal of Hemex is to continue to develop new medical applications for this novel treatment method. Some of the future applications include:

1) treatment of poisoning with heavy metals not included above, including development of specific chelators for the binding of mercury, cadmium, copper plutonium, and other radioactive elements;

2) treatment of poisoning with small molecular weight drugs or chemicals, using specific antibodies against cardioactive drugs like dioxin and quinine, depressants and sedatives like barbiturates, addictive analgesics like Darvon, and abused drugs like cocaine; and

3) improvement of patient management in conditions with circulating harmful antibodies or antigen-antibody complexes where treatment may be feasible by specific removal of these proteins.

The priority of pursuing the future applications will be determined by (i) relative market potential; (ii) technical advances in protein separation; and (iii) up-to-date reports of therapeutic success with plasmapheresis in specific diseases. Some of the conditions which may merit study include various cancers, insulin-dependent diabetes, certain rheumatic diseases, and hemophilia.

MARKETING STRATEGY

The marketing objective adopted by Hemex management is to establish the Hemopurifier device as the preferred treatment in the U.S. for each of the conditions for which the device is designed, and to then expand use of the device into international markets. The Company intends to use multi-faceted sales and marketing strategies for penetrating the U.S. market. Sales and promotional efforts are planned to target distributors, the prescribing physicians and medical facilities, and patients.

DISTRIBUTORS. The Company plans to hire area-marketing managers to work with distributor sales forces. In areas of lower population density, the Company plans to use independent, commissioned sales representatives who work with a small number of closely aligned products. Their duties will include:

1) Developing product-marketing programs.
2) Training distributor sales forces.
3) Providing sales materials and product updates.
4) Assisting in sales calls to physicians and medical facilities.

PHYSICIANS AND MEDICAL FACILITIES. The Company plans to have area marketing managers visit physicians and hospital/medical practice administrators, if possible with distributor salesmen who have strong pre-established relationships with these buyers. In addition, the Company plans to introduce physicians to the Hemopurifier device at medical society meetings and through medical journals. The Company plans to have its representatives attend medical meetings and host information booths.



PATIENTS. As consumers take a greater interest in managing their own health care, the Company believes it will be important to build awareness of the potential of the Hemopurifier among the patient population. The Company plans to work with professional public relations firms to promote the Hemopurifier in newspapers and general interest magazines, as well as in targeted patient-oriented publications. A strong presence at consumer association meetings, where interested individuals share information, will also be pursued. Some of these meetings where the Company will attempt to make presentations include:

Lead Poisoning Prevention Coalition
Alliance to End Childhood Lead Poisoning --
National and International Conferences
Cooley's Anemia Foundation -- National and
International Conferences

DISTRIBUTION. The Company plans to form strategic alliances with a small number of significant distributors of those medical products that are sold to the target buyers. Although distribution rights may be granted on a geographical or a product line basis, the company intends to avoid exclusivity which creates dependence on another firm. The Company intends to look for strategic partners that (i) offer a knowledgeable sales force with strong relations with the dialysis clinics and other medical facilities Hemex seeks to penetrate, and (ii) have the financial and physical capacity to manage inventory and order processing well. For the DFO Hemopurifier device for aluminum, potential partners include suppliers to the dialysis industry and large hospital supply companies.

THE MARKETS

GENERAL USE. Treatment with the Hemopurifier device can be in a hospital or outpatient facility, under the supervision of a physician experienced in hemodialysis or other extracorporeal procedures. The prescribing physician would typically be:

| HEMOPURIFIER APPLICATION | PRESCRIBING PHYSICIAN |
|---|---|
| Aluminum Removal | Nephrologist, Surgeon, Internist, Orthopedist, Emergency Physician |
| Iron Removal | Hematologist, Pediatrician, Internist, Emergency Physician, Nephrologist, Surgeon |
| Lead Removal | Pediatrician, Obstetrician, Industrial Physician, Family Physician, Emergency Physician, Nephrologist |
| Platinum Removal | Oncologist, Internist, Surgeon, Emergency Physician, Nephrologist |

Medical facilities, in the United States targeted for the initial four Hemopurifier products include:

| | |
|---|---|
| 6,000 | Hospitals |
| 2,000 | Freestanding Dialysis centers |
| 100 | Regional Poison Control Centers |

THE MEDICAL NEED FOR THE DFO HEMOPURIFIER. The DFO Hemopurifier, which removes both aluminum and iron from the blood, is manufactured by immobilizing the chelator desferrioxamine (DFO) in the cartridge. DFO has been well established in clinical use as an attractor that binds aluminum and iron. There are three basic conditions in which DFO therapy is indicated:

1) ALUMINUM INTOXICATION. A segment of patients with End Stage Renal Disease (ESRD), who are on chronic hemodialysis, have aluminum toxicity caused by medication which contains aluminum. In 1996, over 200,000 patients were on hemodialysis in the United States, of which an estimated 5% have serious levels of aluminum intoxication. This condition can lead to crippling bone disease, anemia, and in severe cases brain damage and reduced life expectancy.

2) IRON OVERLOAD. There are three patient populations in which excess iron is introduced into the body or absorbed by the body, resulting in organ damage and early death. In each case, life long treatment is required.

   a) HEREDITARY HEMOCHROMATOSIS: A genetic disorder that results in excess iron being absorbed by the gut. Considered the most common of genetic diseases, hemochromatosis afflicts more than one million people in the United States alone, and is thought to be the most under-diagnosed disease in the world.

   b) ACQUIRED IRON OVERLOAD: Iron overload is an unavoidable complication of life-sustaining chronic blood transfusions. These patients include those with Cooley's Anemia, about 10% of those with Sickle Cell Disease, and others with transfusion-dependent anemia like sideroblastic anemia.

   c) ACUTE IRON POISONing: Of approximately 20,000 cases of iron poisoning from iron-containing vitamin pills reported annually to Regional Poison Centers, 60% had symptoms requiring treatment.

3) REPERFUSION INJURY AFTER HEART SURGERY. During open-heart surgery, external blood circulation is established with a heart-lung machine to allow the heart to be stopped safely. When blood flow to the heart is reestablished, reperfusion injury can result from sudden release of iron



accumulated in the heart that may generate oxygen-derived "free radicals." The use of DFO in controlling this condition has been the subject of many recent articles.

PRESENT TREATMENT

Although DFO is an effective chelator of both iron and aluminum, its use is limited because of its serious side-effects. DFO can presently be administered only by injection. These injections may cause acute allergic reactions and blood pressure changes and, after chronic administration, may lead to impairment of hearing and sight. The most dangerous side-effect is increased susceptibility to lethal fungal infections.

At present, less than 10% of patients requiring iron chelation therapy worldwide received the widely used chelating drug desferrioxamine because of its high cost, oral inactivity, and high toxicity. This medical opinion expresses increasing concern about DFO side-effects, and increasing reluctance to prescribe this effective drug.

Two devices containing activated charcoal, the Alu-Kart and the Clark Hemoperfusion System, have been introduced for the removal of aluminum after the injection of DFO. However, they are rarely prescribed because (a) they do not eliminate the need for DFO injection, and (b) other detrimental side-effects were shown when blood cells came into contact with activated charcoal.

In addition to anticipated cost advantages, the DFO Hemopurifier device offers significant medical benefits to the patient:

QUALITY OF LIFE. Treatment is highly efficient, allowing for a single outpatient treatment to substitute for daily therapy. For example, for Cooley's Anemia patients, treatment may be two to three days per month in an outpatient setting rather than 12 hours every night on an infusion pump.

SAFETY. The debilitating and life-threatening side-effects of DFO are eliminated because desferrioxamine does not enter the bloodstream of the patient.

EASE OF TREATMENT. Application is convenient for the patient because treatment is within the existing dialysis process for the aluminum patient, and within existing transfusion or phlebotomy regimens for the iron patient.

The Hemopurifier device clearly adds improved treatment characteristics to lower cost of treatment, relieving medical and financial burdens for the patient and the third party payer.

THE MEDICAL NEED FOR THE HEMOPURIFIER DEVICE FOR LEAD

Public health officials say lead poisoning is the number one environmental threat to children whether they live in public housing or neat, suburban homes. In addition to widely recognized environmental sources, many occupations (e.g. battery manufacturing, smelting) result in exposure to high levels of lead. Workers in these industries may also bring lead into their homes, exposing their families to lead poisoning.

Lead poisoning can affect virtually all systems of the body, causing anemia, gastrointestinal symptoms (constipation, vomiting, abdominal pain), hypertension, damage to the reproductive system (decreased fertility, increased rate of miscarriage and stillbirth), and central nervous system damage resulting in loss of coordination, general weakness, and hand and foot paralysis. In children, lead poisoning interferes with normal growth, impeding physical and neurological development.

The three segments of the population at greatest risk for lead poisoning are shown below:

YOUNG CHILDREN. The NHANES III study by the National Center for Health Statistics found that 1.7 million children under age five have blood levels high enough to affect cognitive development. Approximately 95,500 were found to have levels at which medical intervention is recommended by the Center for Disease Control.

PREGNANT WOMEN. According to a recent statement by the Public Health Service, it is estimated that 22,822 pregnant women have high blood lead levels, which will result in dangerous exposure to their fetuses.

INDUSTRIAL WORKERS. In 1993, over 587,000 workers were exposed directly to lead in the workplace. Based on OSHA compliance inspection data, it is estimated that 195,745 industrial workers have elevated blood lead levels.

PRESENT TREATMENT

Lead intoxication is presently treated with chelation therapy, in which a chemical that binds lead is administered to the patient, who subsequently eliminates the chelator/lead complex through the kidney in the urine. Lead chelators available for clinical use are: Calcium Disodium Versenate (EDTA) given intravenously, Dimercaprol (BAL) given intramuscularly, D-penicillamine and Succimer (DMSA), both given orally. Each of these drugs has its own side-effects (e.g. hypertension, gastrointestinal irritation, kidney injury), and must be given under close medical supervision in a hospital.



YOUNG CHILDREN. Chelation Therapy is used very cautiously in children, depending on the level of intoxication. The most frequently prescribed chelator, EDTA, is given by infusion in a dilute intravenous solution over five consecutive days. This process is often repeated two or three times, with weeklong rests between treatments. Other chelators are administered to children in the same way.

PREGNANT WOMEN. Although lead poisoning in a mother may cause neurological damage to her fetus, she is not given chelation therapy because it is potentially too toxic, and potentially fatal, to the fetus.

INDUSTRIAL WORKERS. Chelation therapy is rarely administered to industrial workers because of its side-effects. OSHA requires that workers be removed from the contaminated area, or sent home, until their lead levels return to acceptable levels. Under current OSHA regulations, the average time away from work is approximately 100 days, at an average estimated cost per day of $74, for a total economic impact of approximately $7,400 per year. The prospect for a long-term illness adds further to the potential cost for the worker and his employer.

TREATMENT OF LEAD POISONING WITH THE HEMOPURIFIER DEVICE

Since the chelator is immobilized in the Hemopurifier device, the binding of lead and chelator takes place outside the body. Lead removal is achieved without any toxicity; the lead/chelator complex is neither released into the blood, nor eliminated through the kidney.

Blood lead levels do not reflect the total body burden of lead, as

lead accumulates in the tissues and in bones. During conventional chelation, lead stored in tissues and bones may be released into the blood, increasing the potential for damage (eventually a new equilibrium among blood-tissue-bones will be established). By contrast, the Hemopurifier device captures the circulating lead as well as the lead released from storage, thus preventing harm to the kidneys.

The number and frequency of treatments with the Hemopurifier device will depend upon the amount of total lead in the body, and on potential re-exposure to the lead source. Re-exposure is a problem for many children living in homes with lead paint, and for many workers in high lead exposure industries.

Application of the Hemopurifier device could be in an outpatient hospital setting, an emergency room, or a dialysis center. A dialysis system, or a simpler apheresis system used for blood transfusions and plasmapheresis, is suitable for administration of the Hemopurifier device for the removal of lead.

In addition to anticipated cost advantages over other treatments, the Company believes the Hemopurifier offers significant medical benefits to the patient:

REDUCED TREATMENT TIME. Treatment is efficient, allowing one outpatient treatment in place of a five-day process. For example, children with lead poisoning might be treated three times in an outpatient setting instead of 15 days of traditional chelation therapy.

TREATMENT FOR PREGNANT WOMEN. Because of the safety of the Hemopurifier, this treatment can be used by pregnant women who heretofore had no effective means of reducing their blood lead levels.

SAFETY. With no side-effects, the Hemopurifier device allows safer and more thorough treatment.

THE MEDICAL NEED FOR THE HEMOPURIFIER DEVICE FOR PLATINUM

Cisplatin is a platinum derivative that is one of the most effective chemotherapeutic agents for certain types of cancer. However, cisplatin infusion is typically followed by severe nausea and vomiting. Cisplatin may deposit in the sensory nerves, resulting in incapacitating levels of pain, which may last for years after treatment has been discontinued. The dosage of cisplatin, therefore, is often limited by its toxicity.

PRESENT TREATMENT

There is presently no means of removing cisplatin from the body. Painkillers and medications that reduce vomiting provide limited relief from side-effects. An injectable preparation for reducing the acute and chronic side-effects is reported to be in development.

TREATMENT OF PLATINUM INTOXICATION WITH THE HEMOPURIFIER DEVICE

The Hemopurifier device for the removal of cisplatin can be applied to the vein draining the tumor, either during or immediately after cisplatin treatment. The toxic agent is removed as it exits the tumor, and before it can invade normal tissue.

Animal tests have demonstrated the effectiveness of this procedure. In a simulated regional perfusion of the legs of anesthetized dogs, cisplatin was infused in the femoral artery, and blood leaving the femoral vein was passed through the Hemopurifier device. The level of cisplatin in the dogs' blood was reduced significantly.

ADVANTAGE OF THE HEMOPURIFIER DEVICE

Priced at $400 to the patient, it is expected that the Hemopurifier will be approved by third-party payers for this treatment. The total cost of treatment are estimated to be:

| | |
|---|---|
| Cartridge Cost | $ 400 |
| Procedure Cost | $ 600 |
| Procedures per Year | 3 |
| Total Annual Cost | $ 3,000 |



Although it offers relatively modest cost, the major benefit offered by the Hemopurifier Device for cisplatin is that it will allow the administration of substantially higher doses of cisplatin, thereby increasing its effectiveness as a chemotherapeutic agent. Since most cisplatin will be removed immediately after it leaves the tumor, normal tissues will not be

damaged. The patient will receive more effective treatment, and enjoy an improved quality of life during treatment because of the reduction or elimination of the debilitating side-effects of cisplatin.

MANUFACTURING

The production of a Hemopurifier device involves two steps: (1) compounding the chelator in a form that can be immobilized in the cartridge, and (2) filling the cartridge with the chelator preparation. A standard Fresenius dialysis cartridge, with minor modifications, is used because of its relatively low cost and wide availability.

Hemex has contracted with two companies to do scale-up development of the DFO Hemopurifier for aluminum for the final clinical trial.

One company, located in Buffalo, New York, has extensive experience in taking chemical products from laboratory formulations to industrial scale production. This contractor will prepare the chelator for delivery to the filler.

The second contractor, located in Rochester, New York, is an FDA-approved facility with a strong record with regulatory agencies. The company is research-oriented with a good understanding of scale-up development. They will fill the devices with the prepared chelator, and package, label, and sterilize the Hemopurifier to FDA specifications.

Beyond meeting the product requirements for clinical trials, there are three options for manufacturing the DFO Hemopurifier device for the commercial market:

- continue to subcontract both processes in these or other facilities;

- manufacture the chelator in-house, and contract the filling, packaging, and sterilization; or

- form a strategic alliance with one competent firm to manufacture the entire product.

Subcontracting without a strategic partnership exposes technological secrets to potential competitors, but offers minimal capital investment and maximum flexibility. It also allows Hemex to bring products to market as rapidly as possible, perhaps sacrificing some potential profit margin to do so. Contracting with a strategic partner offers less risk, but involves surrender of some corporate autonomy and likely some ownership as well.

Hemex management favors using subcontractors in the near and intermediate term. With the anticipated growth in volume, it is possible that self-manufacture will become an attractive financial alternative at some point in the commercial life of the Hemopurifier. In any case, it is unlikely that Hemex will invest in sterilizing capacity in the plan period, so that that capital-intensive process will remain with a contractor.

HEMEX RESEARCH AND DEVELOPMENT LOCATIONS

UNIVERSITY OF BUFFALO FOUNDATION INCUBATOR

Development and in-vitro testing of the Hemopurifier device takes place at laboratory facilities rented from the Western New York Technology Center, maintained by the State University of New York at Buffalo.

The employees at this location work under the direction of Dr. Agnes Stadler. She has a Ph.D. in biotechnology, and an MS in Pharmaceutical chemistry, from the University of Budapest, Hungary. Before coming to the U.S., Dr. Stadler headed the Pharmaceutical Group at the Chinoin Research Center of Chinoin Pharmaceutical Company. She is responsible for developing the immobilized chelators and the assembly of the Hemopurifier devices.

BUFFALO GENERAL HOSPITAL LABORATORY

Testing of Hemopurifier in recirculation experiments with biological materials (chiefly human blood) is conducted at the laboratory at the University-affiliated Buffalo General Hospital. Blood Samples from patients with disease conditions amenable to treatment with specific Hemopurifier's are tested in this facility. This unit is headed by Dr. Clara Ambrus.

LABORATORY ANIMAL FACILITIES - SUNY AT BUFFALO

Preclinical animal testing is conducted under sterile conditions, using continuous monitoring, at the Laboratory Animal Facilities at the State University of New York at Buffalo. Hemex employees work at this facility with the assistance of personnel provided by the University. Veterinary consultation, technicians for the daily care of the animals, surgical assistants during experimentation, and post-surgical care are all provided by the facility. Hemex reimburses the University on an hourly basis for animal maintenance and experimental assistance.

A state of the art facility with 20 hemodialysis stations, the Hemodialysis Center can serve 120 patients per day. Director of the Center is Dr. Sidney Anthone, a member of the Scientific Advisory Board of Hemex and a long-time collaborator of Dr. Ambrus. Dr. Anthone has conducted the in vivo clinical studies of the Hemopurifier completed to date, in collaboration with Dr. Clara Ambrus.

DEVELOPMENTS TO DATE

A summary of progress to date for each of the four metal intoxication devices follows:

DFO HEMOPURIFIER DEVICE FOR ALUMINUM. The first clinical trial under an IDE was completed at the end of 1993, with the results accepted by the FDA in 1994. The trial showed that the device was safe; a complete lack of side-effects on the first application, and on repeated applications, was demonstrated. Furthermore, the device was effective in removing substantial amounts of aluminum from the blood. See Exhibit "D" for detailed results of this trial.

In preparation for the application for marketing approval, a second IDE was requested, and approved in February 1997. This trial will test the efficacy of aluminum removal during dialysis treatment using the same treatment schedule that will be recommended for commercial use of the DFO Hemopurifier.

This clinical trial includes treating patients from three dialysis centers three times per week for 12 weeks, with each treatment lasting four hours. A total of 24 patients will be treated, with an equal number of controls monitored. The focus of the trial will be to demonstrate the superiority of the Hemopurifier device over present treatment, and to gather data that will support the cost-effectiveness of this treatment. This trial will begin in the fourth quarter of 1999.

Upon acceptance by the FDA of the results of this clinical trial, Hemex will immediately file a PMA application, anticipating approval in the first quarter of 2001. Sales of the aluminum device will begin as soon as this approval is received.

The Company will continue to explore alternative expedited regulatory paths, such as the Product Development Protocol, the Humanitarian Device Exemption, and the 510K process, for this and subsequent devices.

DFO HEMOPURIFIER DEVICE FOR IRON . During the forthcoming clinical trial for the aluminum device, excess iron will unavoidably be removed from patients' blood since the chelator for aluminum and for iron is identical. Data gathered on iron removal will be an essential part of Hemex submission to the FDA for approval of the iron Hemopurifier, which will be made at the earliest opportunity. The FDA may require further clinical testing on a limited scale, but the approval process may be shorter and less costly than for the PMA for the initial product.

HEMOPURIFIER DEVICE FOR PLATINUM. The initial prototype of the Hemopurifier device for platinum has been tested successfully in vitro using blood of patients which was collected during cisplatin treatment. It was also tested in animals chiefly for safety. Chelators are now being tested, and an application for a Phase I Clinical trial will be submitted in the third quarter of 1999.

HEMOPURIFIER DEVICE FOR LEAD. Resin chelators are being investigated for their suitability for immobilization, as well as their specificity, efficiency, availability, and cost. Results from tests in vitro, and in dogs with experimentally produced lead poisoning, are extremely encouraging in demonstrating the efficacy of the Hemopurifier approach to lead detoxification. Once the laboratory work is complete, application to the FDA for a Phase I Clinical Trial will be submitted in the fourth quarter of 1999.

COMPETITION AND TECHNOLOGICAL CHANGE

There are many companies, both public and private, including well-known pharmaceutical companies, chemical companies and specialized biotechnology companies, engaged in developing diagnostic products for certain of the applications being pursued by Hemex. Many of these companies have substantially greater capital, research and development, manufacturing, marketing and human resources and experience Company is anticipated to have. Such companies may develop products more quickly or products that are more effective and less costly than any that the Company may develop. The industry

in which the Company proposes to compete is characterized by extensive research efforts and rapid technological changes. New developments are expected to continue, and there can be no assurance that discoveries by others will not render the Company's products or potential products noncompetitive. Competition may increase further as a result of advances that may be made in the commercial applicability of technologies and greater availability of capital for investment in these fields.

SUMMARY OF CURRENTLY AVAILABLE TREATMENTS

Management knows of no comparable medical devices either being sold commercially, or in development, which perform the same function as the Hemopurifier products. The alternative treatments available to patients today are described below.

CHELATION. Current treatments for metal intoxications (aluminum, iron, and lead) involve the administration of specific binding agents, called chelators, either by injection or orally. The complex formed by the combination of the chelator and the metal is removed by natural evacuation, through the kidney or through the intestines. The chelators and chelator/metal complexes are toxic and can produce such harmful side-effects as gastrointestinal irritation, hypertension, and kidney injury.

The principal chelators and their manufacturers are identified in the following table:



<TABLE>
<CAPTION>

| FOR THE REMOVAL OF: | CHELATOR | MANUFACTURER |
|---|---|---|
| <S> | <C> | <C> |
| Aluminum and Iron | DFO (Desferrioxamine Mesylate) | Novartis (Ciba Geigy) |
| Lead | EDTA (Calcium Disodium Versenate) | 3M Pharmaceutical Co. |
| Lead | BAL (Dimercaprol) | Becton-Dickinson |
| Lead | D-penicillamine | Merck & Co. and Wallace Laboratories |
| Lead | DMSA (Succimer) | McNeil Consumer Products |

</TABLE>

HEMOPERFUSION. In this process, blood is passed through a cartridge containing activated charcoal, which is intended to absorb the metal or toxin. The principal disadvantages of hemoperfusion are: (1) activated charcoal is not specific to the targeted toxin, so that other desirable substances may also be removed from the blood, and (2) blood cells are often injured when they come in contact with activated charcoal, resulting in clotting and other harmful side-effects.

The Clark Biocompatible Hemoperfusion System, from Clark Research and Development, is a general non-specific detoxifier that has been on the market for over 10 years. Approved for third-party payment, the Clark cartridge costs $690, and the total treatment about $1,000. The system seems not to be widely used, with reported sales of just under $300,000.

PLASMAPHERESIS. This procedure involves the separation of plasma from red blood cells in a separator (an expensive piece of equipment), and discarding the plasma that contains the intoxicant. The red blood cells are returned to the body, and the plasma replaced with normal plasma or other

replacement fluids. The major disadvantages of this process are: (1) the entire plasma is removed in order to remove one harmful component, (2) the process presents risk of blood pressure fluctuations and fluid overload, and (3) transmission of infectious agents is possible when the replacement fluid is human plasma.

EMPLOYEES

As of March 31, 1999, the Company employed three employees, all of whom were employed on a full-time basis and are considered executive personnel. None of the Company's employees are covered by a collective bargaining agreement, the Company has never experienced a work stoppage, and the Company considers its labor relations to be excellent.

PATENTS

The following patents have been issued to Dr. Clara Ambrus, a shareholder of the Company and an officer of Hemex, and her collaborators, with U.S. patents subsequently assigned to Hemex (foreign patent assignments to Hemex are in process):

REMOVING METAL IONS FROM THE BLOOD

<TABLE>
<CAPTION>

| <S> | <C> | <C> | <C> |
|---|---|---|---|
| | USA: | No. 4,612,122 | Issued September 16, 1986 |
| | Europe: | No. 0,073,888 | Issued April 23, 1986 |
| | Japan: | No: 110,047/82 | Issued June 7, 1994 |
| | | BLOOD PURIFICATION | |
| | USA: | No. 4,714,556 | Issued December 22, 1987 |
| | USA: | No. 4,787,974 | Issued November 29, 1988 |

</TABLE>

The claims cover the product itself, the process of manufacture, and the process of treatment.

On July 25, 1998, Hemex applied for an additional patent on the proprietary immobilization process used in the Hemopurifier and will soon apply for other patents covering specific applications of the technology not covered in the original patents.

REGULATORY APPROVAL

The DFO Hemopurifier device for the removal of aluminum has been shown to be safe in patient use. The FDA granted an Investigational Device Exemption (IDE) in 1993 for a clinical trial to test the safety of the device in six patients. The trial was completed in late 1993, and the results accepted by the FDA in 1994. The trial confirmed that the product and process are completely safe in vivo; a lack of side effects on the first, and subsequent applications, was clearly demonstrated. Furthermore, the results confirmed that the device is very effective in removing aluminum from the blood.

In preparation for application for pre-marketing approval (PMA) from the FDA, a second IDE was granted on February 20, 1997. This trial will confirm the safety of the device, as well as establish its clinical effectiveness in removing aluminum. The approved trial will employ the treatment protocol to be used when the device is sold commercially, and will involve 48 patients in three medical centers: Buffalo General Hospital (Buffalo, NY), Beth Israel Hospital (New York, NY), and Millard Fillmore Hospital (Buffalo, NY). Twenty-four patients treated with the Hemopurifier device will be compared to twenty-four untreated dialysis patients having the same levels of aluminum. In the treatment group, Hemopurifier devices will be applied simultaneously with every dialysis (i.e. three times per week, four hours per treatment, for three months. This trial will begin in the third quarter of 1999.



Upon receipt of FDA approval to proceed, PMA submissions for both the aluminum application and the iron application will be made as soon as possible. Since the identical device removes both aluminum and iron, it is expected that data recorded during the forthcoming clinical trial will expedite FDA approval of the application for treatment of iron overload conditions.

Removal of lead and platinum intoxications by a device with a resin chelator has been tested successfully in vivo in animals, and work is underway to prepare for IDE applications for these products. No significant

development issues remain in either case, and moving to initial clinical trials is largely a matter of procuring funding to do so. The FDA approval process for these applications should be expedited by the fact that the identical device removes both lead and platinum.

FDA APPROVAL AND OTHER REGULATIONS

The development, manufacture, and marketing of Hemex products are subject to extensive and rigorous regulation by the FDA. Initial clinical trials for the first product Hemex plans to bring to market, the DFO Hemopurifier device for aluminum, have been completed under the FDA's IDE (Investigational Device Exemption) regulations. These trials have been accepted by the FDA, enabling Hemex to proceed to a final round of clinical trials under a second IDE granted in February 1997. Upon successful completion of that trial, application for pre-marketing approval can proceed.

The process of obtaining FDA and other approvals for medical devices is generally lengthy and expensive, and the outcome often unpredictable. There can be no assurance that Hemex can ultimately obtain the necessary approvals to market its products. And, if regulatory approvals are granted, they may include specific limitations on indicated uses for which the products may be marketed.

Changes in existing regulations, or the adoption of new regulations, could prevent Hemex from obtaining future regulatory approvals, or delay substantially required approvals. No assurance can be given that new legislation or regulations, or changes in the enforcement of existing regulations, will not have a material adverse impact on Hemex's ability to achieve the results expected and the success of the Company.

PATENT PROTECTION AND PROPRIETARY TECHNOLOGY

Hemex has developed proprietary technology, and has broad patents relating to aspects of its technology. Furthermore, Hemex has applied for additional patents on elements of its technology and applications. Hemex believes these patents are important to its ultimate success.

However, there can be no assurance that additional patents will be issued or, if issued and challenged, will be ultimately determined to be valid. There is no assurance that the Company can maintain the secrecy of any proprietary technology. Furthermore, issued patents may not prevent infringement claims against Hemex, nor prevent others from infringing upon those patents. Defense and prosecution of patent claims can be expensive and time-consuming, especially for a small company, even if the outcome is favorable.

ITEM 2. DESCRIPTION OF PROPERTY

The Company currently rents approximately 2,000 square feet of laboratory space from the University of Buffalo Foundation on a month-to-month basis at a lease rate of approximately $2,640 per month. The Company also leases approximately 1,200 square feet of executive office space in La Jolla, California at the rate of $1,540 per month on a month-to-month basis for use as its principal executive offices.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings, and the Company is not aware of any threatened legal proceedings to which the Company may be a party.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the period covered by the report.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

LIMITED PUBLIC MARKET FOR SHARES OF COMMON STOCK

The Company's Common Stock is traded on the Over-the-Counter Bulletin Board ("OTCBB"). The Company's trading symbol is "BSEQ." The Company's Common Stock has had a limited trading history, and trading has been limited and sporadic.

The following table sets forth for the period indicated the high and low bid quotations for the Common Stock as reported by the OTCBB. The prices represent quotations between dealers, without adjustment for retail markup, mark down or commission, and do not necessarily represent actual transactions.

<TABLE>
<CAPTION>
<S> <C> <C>

| 1999 | HIGH BID | LOW BID |
|---|---|---|
| 1st Quarter | $10.00 | $7.75 |
| 1998 | | |
| 4th Quarter | $ 9.50 | $7.50 |
| 3rd Quarter | $ 9.50 | $5.50 |
| 2nd Quarter | $ 9.50 | $5.50 |
| 1st Quarter | $10.50 | $5.50 |
| 1997 | | |
| 4th Quarter | $10.50 | $5.50 |
| 3rd Quarter | $10.50 | $5.50 |
| 2nd Quarter | $10.50 | $5.50 |

</TABLE>

There are approximately 100 record holders of the Company's Common Stock.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

PLAN OF OPERATION

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

The Company is in the initial stages of its operations and has not yet engaged in any commercial activities. During the fiscal 2000, the Company plans to continue its research and development activities relating to the Hemopurifier, commence manufacturing, and commence marketing and sales activities. See Item 1, "Business."

The implementation of the Company's business plan is dependent upon its ability to raise capital. The Company has undertaken a private placement of $750,000 principal amount of 12-month notes bearing interest at 12% per annum. The Company has also received a letter from an investment banker agreeing to use its best efforts to sell $5.0 million to $7.0 million of the Company's Common Stock in a private placement anticipated to commence in September 1999. The Company believes that the successful completion of these offerings will satisfy the Company's anticipated capital requirements related to the development of the Hemex business for three years; however, additional financing may be required in the case of further acquisitions or to successfully develop other other technologies. At the present time, the Company has no plans to purchase significant amounts of equipment or hire significant numbers of additional employees until the successful completion of the private placement of its Common Stock. The Company has no plant purchases scheduled during the next 12 months.

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

The Company is a development stage entity and during the fiscal year ended March 31, 1999 had no revenue compared to revenue in the fiscal year ended March 31, 1998 of $20,000. Revenue from inception (January 31, 1984) to March 31, 1999 totals $1,568,000, of which $1,424,000 was grant income.

Expenses for the fiscal year ended March 31, 1999 were $352,000 compared to expenses of $494,000 for the fiscal year ended March 31, 1998. Expenses from inception to March 31, 1999 were $5,009,000.

The net loss for the fiscal year ended March 31, 1999 was $353,000 ($.23 per share) compared to $492,000 ($.39 per share) for the fiscal year ended March 31, 1998. The loss from inception to March 31, 1999 is $3,447,000 ($2.67 per share).

ITEM 7. FINANCIAL STATEMENTS

The financial statements listed in the accompanying Index to Financial Statements are attached hereto and filed as a part of this Report under Item 13.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

The registrant has dismissed its former principal accountant, Jody M. Weber, C.P.A., effective June 15, 1999.

During the two most recent fiscal years of the registrant and each

subsequent interim period preceding June 15, 1999, there were no disagreements with the former accountant on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure of any reportable events.

The reports of the former principal accountant on the financial statements of the registrant for the fiscal years ended March 31, 1998 and 1997 did not contain qualified opinions.



The registrant's Board of Directors has approved the decision to change accountants.

On June 15, 1999, the registrant engaged Freed, Maxick, Sachs & Murphy, PC as its principal accountant.

## PART III

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers, directors, and persons who own more than 10% of a registered class of the Company's equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC") and Nasdaq. Officers, directors, and greater than 10% beneficial owners are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. The Company believes that all filing requirements applicable to its officers, directors, and greater than 10% beneficial owners were complied with.

EXECUTIVE OFFICERS, DIRECTORS AND KEY EMPLOYEES

The names, ages and positions of the Company's Directors and executive officers as of March 31, 1999 are listed below:

<TABLE>
<CAPTION>

| NAMES | TITLE OR POSITION | AGE |
|---|---|---|
| <S> | <C> | <C> |
| James A. Joyce | Chairman, Secretary, and Director | 37 |
| Franklyn S. Barry, Jr. | President/Chief Executive Officer, Interim Chief Financial Officer, and Director | 59 |
| Edward G. Broenniman | Director | 63 |

</TABLE>

Resumes of Management follow:

FRANKLYN S. BARRY, JR., PRESIDENT, CHIEF EXECUTIVE OFFICER, INTERIM CHIEF FINANCIAL OFFICER, AND DIRECTOR

Mr. Barry has over 25 years of experience in managing and building companies. He has been the President and Chief Executive Officer of Hemex since April 1997. From 1994 to April 1997, Mr. Barry was a private consultant. Included among his prior experiences are tenures as President of Fisher-Price and as co-founder and CEO of Software Distribution Services, which today operates as Ingram Micro-D, an international distributor of personal computer products. Mr. Barry serves on the Board of Directors of both publicly-traded and privately-owned businesses in several different industries. Mr. Barry received a B.A. from Harvard College and an M.B.A. from the Harvard Graduate School of Business Administration.

JAMES A. JOYCE, CHAIRMAN, SECRETARY, AND DIRECTOR

Mr. Joyce is the founder of Aethlon, Inc. Since 1993, Mr. Joyce has served as the Chief Executive Officer of James Joyce & Associates, a management consulting and investment banking organization that specializes in the structure and placement of private and public equity offerings. Most recently, he advised in the structure and placement of over $20 million in private equity on behalf of a publicly-traded computer distribution company, and served as a board member and advisor in the initial public offering of a biomedical company. Previously, Mr. Joyce was Chief Executive Officer of Mission Labs, Inc. and a principal in charge of U.S. operations for London

Zurich Securities, Ltd. Mr. Joyce received a B.A. from the University of Maryland.

EDWARD G. BROENNIMAN, DIRECTOR

Mr. Broenniman has 30 years of management and executive experience with high-tech, privately-held growth firms where he has served as a CEO, COO, or corporate advisor, using his expertise to focus management on increasing profitability and stockholder value. Mr. Broenniman recently served on the Board of Directors of publicly-traded QuesTech (acquired by CACI International), and currently serves on the Boards of four privately-held firms, the Dingham Center for Entrepreneurship's Board of Advisors at the University of Maryland, and the Board of the Association for Corporate Growth. Mr. Broenniman holds an M.B.A. degree from Stanford University and a B.A. degree from Yale University.

ITEM 10. EXECUTIVE COMPENSATION

During the fiscal year ended March 31, 1999, no officer of the Company received compensation in excess of $100,000. Franklyn S. Barry, Jr., the Company's Chief Executive Officer, was entitled to receive a salary of $108,000 for the fiscal year ended March 31, 1999; however, he received only $18,000 of the salary due him and has deferred the balance owing.



In April 1999, the Company entered into three-year employment agreements with James A. Joyce, the Company's Chairman of the Board, and Mr. Barry. Mr. Joyce's agreement provides for base compensation of $108,000 per year, and Mr. Barry's agreement provides for base compensation of $120,000 per year. The agreements also provide that the employees are eligible to receive the Company's standard benefits package and participation in an incentive compensation program approved by the Board of Directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of the Company's officers, directors, and persons who own more than five percent of the Company's common stock as of the date June 28, 1999.

<TABLE>
<CAPTION>

| Name | Title | Number of Shares (1) | Percent of Class |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| James A. Joyce | Chairman, Secretary, and Director | 675,400 | 26.0% |
| Franklyn S. Barry, Jr. | President/Chief Executive Officer, Interim Chief Financial Officer, and Director | 418,593 (2) | 13.9% (2) |
| Edward G. Broenniman | Director | 255,874 (3) | 9.9% |
| Clara Ambrus | Chief Scientific Officer and Director of Hemex | 450,279 | 17.4% |
| Deborah Salerno | Shareholder | 425,000 | 16.4% |
| Thomas Wolf | Shareholder | 131,820 | 5.1% |
| All directors and executive officers of Company as a group (3 persons) | | 1,349,867 (4) | 44.9% (4) |

</TABLE>

- ------------------------

(1) Assumes 2,595,000 shares outstanding based on the exchange of all of the shares of Aethlon and Hemex in accordance with the Aethlon and Hemex Agreements.

(2) Includes 412,500 shares issuable upon the exercise of presently-exercisable non-qualified stock options which the Company has agreed to issue; however, no agreement has been executed as of the date of this report. The percentage ownership for Mr. Barry is based on 3,007,500 shares outstanding, assuming the exercise of the 412,500 options.

(3) Includes 201,989 shares owned of record by Linda Broenniman, Mr.

Broenniman's wife.

(4) Includes 412,500 shares issuable upon the exercise of presently-exercisable incentive stock options held by Mr. Barry. The percentage ownership is based on 3,007,500 shares outstanding, assuming the exercise of the 412,500 options.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.



ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report on Form 10-KSB:

1. Financial Statements for the periods ended March 31, 1999 and 1998:

Independent Auditors' Reports
Statements of Operations
Balance Sheet
Statements of Cash Flows
Statements of Stockholders' Deficiency
Notes to Financial Statements

2. Exhibits

The following exhibits are being filed with this Annual Report on Form 10-KSB and/or are incorporated by reference therein in accordance with the designated footnote references:

3.1 Articles of Incorporation and Bylaws of the Company (1)

10.1 Employment Agreement between the Company and Franklyn S. Barry, Jr. dated April 1, 1999.

10.2 Employment Agreement between the Company and James A. Joyce dated April 1, 1999.

10.3 Agreement and Plan of Reorganization Between the Registrant and Aethlon, Inc. dated March 10, 1999 (2)

10.4 Agreement and Plan of Reorganization Between the Registrant and Hemex dated March 10, 1999 (2)

23.1 Independent Auditors' Consent - Freed, Maxick, Sachs & Murphy, P.C.

27 Financial Data Schedule Worksheet

- ------------------------

(1) Filed with the Company's Registration Statement on Form SB-2 and incorporated by reference.

(2) Filed with the Company's Current Report on Form 8-K dated March 10, 1999.

(b) Reports on Form 8-K.

Current Report on Form 8-K dated March 10, 1999 (filed with the SEC on March 15, 1999) relating to the Aethlon and Hemex Reorganizations.

Current Report on Form 8-K/A dated March 10, 1999 (filed with the SEC on May 25, 1999) relating to the Aethlon and Hemex Reorganizations.

Current Report on Form 8-K dated June 15, 1999 (filed with the SEC on June 21, 1999) relating to the change of the Company's independent auditors.

Current Report on Form 8-K/A dated June 15, 1999 filed on July 12, 1999 relating to the change of the Company's independent auditors.



SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned,

thereunto duly authorized, on the 15th day of July 1999.

By: /s/Franklyn S. Barry, Jr.
---
Franklyn S. Barry, Jr.,
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

| SIGNATURE | TITLE | DATE |
|---|---|---|
| <S> | <C> | <C> |
| /s/James A. Joyce<br>- ---<br>James A. Joyce | Chairman of the Board<br>Secretary, Director | July 15, 1999 |
| /s/Franklyn S. Barry, Jr.<br>- ---<br>Franklyn S. Barry, Jr. | Chief Executive Officer,<br>President, Interim Chief<br>Financial Officer, Director<br>(Principal Accounting Officer) | July 15, 1999 |
| - ---<br>Edward G. Broenniman | Director | July ___, 1999 |

</TABLE>



CONSOLIDATED
FINANCIAL REPORT

BISHOP EQUITIES, INC.
(D/B/A AETHLON MEDICAL, INC.)
AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

- ---
- ---

MARCH 31, 1999

BISHOP EQUITIES, INC.
(D/B/A AETHLON MEDICAL, INC.)
AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONTENTS

- ---
- ---

<TABLE>
<CAPTION>

</TABLE>

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bishop Equities, Inc. and Subsidiaries
Buffalo, New York

We have audited the accompanying consolidated balance sheets of Bishop Equities, Inc. (d/b/a Aethlon Medical, Inc.) and Subsidiaries (A Development Stage Enterprise) as of March 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended and for the period from January 31, 1984 (inception) to March 31, 1999. 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 generally accepted auditing standards. 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. An audit also includes 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 Bishop Equities, Inc. (d/b/a Aethlon Medical, Inc.) and Subsidiaries (A Development Stage Enterprise) as of March 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended and from January 31, 1984 (inception) to March 31, 1999 in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and its total liabilities exceed its total assets. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

FREED MAXICK SACHS & MURPHY, P.C.

Buffalo, New York
June 18, 1999



BISHOP EQUITIES, INC. (D/B/A AETHLON MEDICAL, INC.)
AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED MARCH 31,

- ----------
- ----------

<TABLE>
<CAPTION>

| | | | CUMULATIVE DURING DEVELOPMENT STAGE THROUGH MARCH 31, 1999 |
|---|---|---|---|
| | 1999 | 1998 | |
| <S> | <C> | <C> | <C> |
| REVENUE: | | | |
| Grant income | $ - | $ - | $ 1,424,012 |
| Subcontract income | - | - | 73,746 |
| Sale of research and development | - | 2,810 | 35,810 |
| Other income | - | 17,225 | 17,225 |
| Interest income | - | - | 17,415 |
| Total revenue | - | 20,035 | 1,568,208 |
| EXPENSES: | | | |
| Personnel costs | 221,779 | 295,678 | 2,847,496 |
| Professional fees | 45,887 | 50,501 | 316,980 |
| Rent and utilities | 32,429 | 37,916 | 255,889 |
| Depreciation | 16,287 | 17,423 | 123,820 |
| Interest | 13,823 | 34,211 | 90,761 |
| Amortization | 8,171 | 8,171 | 34,727 |
| Office expense | 5,715 | 3,150 | 159,798 |
| Travel and meetings | 5,325 | 22,077 | 117,417 |
| Miscellaneous | 3,131 | 4,121 | 98,303 |
| Equipment and maintenance | 1,674 | 46 | 164,699 |
| Laboratory supplies | 180 | 12,055 | 99,733 |
| Research and development consultation | - | 25,548 | 240,463 |
| Subcontract expense | - | - | 195,964 |
| Contractual costs | - | - | 192,112 |
| Dues and subscription | - | - | 13,596 |
| Insurance | (2,347) | 2,769 | 57,311 |
| Total expenses | 352,054 | 513,666 | 5,009,069 |
| Loss before income tax provision (benefit) | (352,054) | (493,631) | (3,440,861) |
| Income tax provision (benefit) | 625 | (1,759) | 6,173 |
| NET LOSS | $ (352,679) | $ (491,872) | $ (3,447,034) |
| PER SHARE: | | | |

| | | | |
|---|---|---|---|
| Net loss | $ (.23) | $ (.39) | $ (2.67) |
| Weighted average number of common shares outstanding | 1,506,833 | 1,274,000 | 1,289,352 |

</TABLE>

See accompanying notes.



BISHOP EQUITIES, INC. (D/B/A AETHLON MEDICAL, INC.)
AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED BALANCE SHEETS
MARCH 31,

<TABLE>
<CAPTION>

| ASSETS | 1999 | 1998 |
|---|---|---|
| <S> | <C> | <C> |
| CURRENT ASSETS: | | |
| Cash | $ 3,052 | $ 1,232 |
| Total current assets | 3,052 | 1,232 |
| EQUIPMENT, NET | 33,608 | 49,895 |
| PATENTS, NET | 45,413 | 53,584 |
| TOTAL ASSETS | $ 82,073 | $ 104,711 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable: | | |
| Trade | $ 252,178 | $ 197,096 |
| Related parties | 158,306 | 180,158 |
| Deferred compensation | 310,008 | - |
| Accrued liabilities | 63,577 | 53,713 |
| Due to stockholder | 2,500 | - |
| Total current liabilities | 786,569 | 430,967 |
| DEFERRED COMPENSATION | - | 411,672 |
| LOANS PAYABLE - STOCKHOLDERS | - | 367,883 |
| STOCKHOLDERS' DEFICIENCY: | | |
| Common stock - $.001 par value, 25,000,000 | | |

| | | |
|---|---|---|
| shares authorized, 2,595,000 (1,274,000 - 1998) | | |
| shares issued and outstanding | 2,595 | 1,274 |
| Additional paid in capital | 2,739,943 | 1,987,270 |
| Deficit accumulated during development stage | (3,447,034) | (3,094,355) |
| Total stockholders' deficiency | (704,496) | (1,105,811) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | $ 82,073 | $ 104,711 |

</TABLE>

See accompanying notes.



BISHOP EQUITIES, INC. (D/B/A AETHLON MEDICAL, INC.)
AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31,

<TABLE>
<CAPTION>

| | 1999 | 1998 | CUMULATIVE DURING DEVELOPMENT STAGE THROUGH MARCH 31, 1999 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss | $ (352,679) | $(491,872) | $(3,447,034) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | | |
| Depreciation | 16,287 | 17,423 | 123,820 |
| Amortization | 8,171 | 8,171 | 34,727 |
| Deferred compensation forgiven | 37,600 | 75,200 | 217,223 |
| Decrease in assets: | | | |
| Prepaid insurance | - | 4,909 | - |
| Increase in liabilities: | | | |
| Accounts payable | 12,838 | 104,228 | 390,634 |
| Accrued expenses | 77,074 | 18,918 | 130,815 |
| Deferred compensation | 77,959 | 109,935 | 310,007 |
| NET CASH USED BY OPERATING ACTIVITIES | (122,750) | (153,088) | (2,239,808) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of equipment | - | - | (157,428) |
| Purchase of patents | - | - | (80,740) |
| NET CASH USED BY INVESTING ACTIVITIES | - | - | (238,168) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Loans from stockholders | - | 120,000 | 370,384 |

| | | | |
|---|---|---|---|
| Advance from affiliate | 122,100 | - | 122,100 |
| Net proceeds from issuance of common stock | 2,470 | 22,000 | 1,988,544 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 124,570 | 142,000 | 2,481,028 |
| NET INCREASE (DECREASE) IN CASH | 1,820 | (11,088) | 3,052 |
| Cash - beginning of year | 1,232 | 12,320 | - |
| Cash - end of year | $ 3,052 | $ 1,232 | $ 3,052 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid during the year for: | | | |
| Interest | $ - | $ - | $ 23,580 |
| Income taxes | $ 325 | $ 1,097 | $ 5,812 |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Loans converted to common stock | $ 435,094 | $ - | $ 435,094 |
| Net assets of entities acquired in exchange for the issuance of common stock | $ 119,014 | $ - | $ 119,014 |

</TABLE>

See accompanying notes.



BISHOP EQUITIES, INC. (D/B/A AETHLON MEDICAL, INC.)
AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY

<TABLE>
<CAPTION>

| | COMMON STOCK | | PAID IN | ACCUMULATED | |
|---|---|---|---|---|---|
| | SHARES | AMOUNT | CAPITAL | DEFICIT | TOTAL |
| <S> | <C> | <C> | <C> | <C> | <C> |
| BALANCE AT APRIL 1, 1997 | 1,274,000 | $ 1,274 | $ 1,987,270 | $ (2,602,483) | $ (613,939) |
| Net loss - 1998 | - | - | - | (491,872) | (491,872) |

| | | | | | |
|---|---|---|---|---|---|
| BALANCE AT MARCH 31, 1998 | 1,274,000 | 1,274 | 1,987,270 | (3,094,355) | (1,105,811) |
| Conversion of loans payable - stockholders into Hemex common stock (Note 6) | 76,000 | 76 | 435,018 | - | 435,094 |
| Issuance of common stock for acquisition of Bishop (Note 3) | 511,500 | 511 | (2,437) | - | (1,926) |
| Issuance of common stock for acquisition of Aethlon (Note 3) | 733,500 | 734 | 102,869 | - | 103,603 |
| Forgiven employee/stockholder deferred compensation (Note 5) | - | - | 217,223 | - | 217,223 |
| Net loss - 1999 | - | - | - | (352,679) | (352,679) |
| BALANCE AT MARCH 31, 1999 | 2,595,000 | $ 2,595 | $ 2,739,943 | $ (3,447,034) | $ (704,496) |

See accompanying notes.



BISHOP EQUITIES, INC. (D/B/A AETHLON MEDICAL, INC.)
AND SUBSIDIARIES
(A DEVELOPMENT STATE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of Bishop Equities, Inc. (doing business as Aethlon Medical Inc.) (Bishop) and its wholly owned subsidiaries, Hemex, Inc. (Hemex) and Aethlon, Inc. (Aethlon) (collectively the Company). All significant intercompany balances and transactions have been eliminated.

NATURE OF BUSINESS - Bishop, which was formerly a non-operating public shell, is the parent company to Aethlon and Hemex. Aethlon was incorporated on June 24, 1998 to acquire proprietary medical device technologies with the ability to be developed and commercialized on an international basis. Hemex was incorporated on January 31, 1984 and is a start-up research and development company involved in developing the Hemopurifier-TM- which is a medical device which removes toxic metals present in the bloodstream.

To date the Company is in the initial stage of its operations and has not yet engaged in any commercial activities. Marketing of the Hemopurifier is subject to FDA approval.

ESTIMATES - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and receipts and expenditures during the reporting period. Actual results could differ from estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The carrying amounts of the current assets and liabilities reported in the balance sheets approximate fair value due to their short term maturity.

ACCOUNTING STANDARDS CHANGES - Effective fiscal 1998, the Company adopted SFAS 131, Disclosures about Segments and Related Information, which establishes standards for the way public companies report information about

operating segments in both interim and annual financial statements and related disclosures. The Company is currently organized, managed and internally reported as one segment. The segment operates entirely within the United States.

NET LOSS PER COMMON SHARE - In accordance with SFAS 128, dual presentation of basic and diluted earnings per share is required on the face of the statement of operations. Net loss per share is based upon the weighted average number of common shares outstanding during the periods presented. Outstanding stock options, warrants and convertible debentures have not been considered common stock equivalents because their assumed exercise would be anti-dilutive.





NOTE 1. - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EQUIPMENT AND DEPRECIATION - Equipment is recorded at cost. Depreciation has been determined using the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ended March 31, 1999 and 1998 was $16,287 and $17,423, respectively. Accumulated depreciation as of March 31, 1999 and 1998 amounted to $123,820 and $107,532, respectively.

PATENTS AND AMORTIZATION - Three patents were acquired during the year ended December 31, 1994 from a stockholder in exchange for a note payable in the amount of $80,140. The patents are being amortized on the straight-line method over their remaining lives which expire between the years 2003 through 2005. Amortization for each of the years ended March 31, 1999 and 1998 was $8,171. Accumulated amortization as of March 31, 1999 and 1998 amounted to $34,727 and $26,556, respectively.

RESEARCH, DEVELOPMENTAL AND ORGANIZATIONAL COSTS - Research, developmental and organizational costs are expensed as incurred.

INCOME TAXES - Income taxes are computed in accordance with Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes. Deferred taxes are provided on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. Differences in basis for which deferred taxes are provided relate primarily to costs associated with research and development.

NOTE 2. - FINANCIAL CONDITION

On March 10, 1999, Bishop acquired the outstanding stock of two privately held Development Stage Enterprises, Hemex and Aethlon, in order to pursue its commitment to become a significant developer and manufacturer of medical device technologies (see Note 3). Hemex has developed a proprietary and patented technology for the extracorporeal removal of toxic materials from the blood, and has completed its first clinical trial of one application of this technology. Aethlon was formed as a medical device acquisition company, whose mission will now be carried forward by Bishop. Management intends to seek other acquisitions in related medical device technologies while in the near term concentrating on the commercialization of the Hemex Hemopurifier-TM- product line. It is expected that, subject to FDA approval, commercialization of this product will begin on a limited basis in late 2000.





NOTE 2. - FINANCIAL CONDITION (CONTINUED)

Since the acquisition of Hemex and Aethlon, the Company has undertaken

an offering of short term debt in the amount of $750,000. Proceeds from this offering are expected to be available in July 1999. The Company has also received a letter from a major investment bank agreeing to use its best efforts in leading the private placement of the Company's common stock in the amount of $5 million to $7 million beginning in September 1999. Management believes that the financing provided by these two offerings, should they be completed, will be sufficient to meet the Company's cash needs, including the commercialization of the Hemopurifier-TM- products, for at least three years. Additional financing may be required in the case of further acquisitions.

Management has several strategies for the conservation of capital while it is a Development Stage Enterprise. Management will invest principally in research and product development, and to a lesser extent in marketing, planning and development. Strategic partnerships and subcontracting relationships are planned for direct sales, distribution and manufacturing activities related to the Hemex product line. Careful management of general and administrative expenses, including the use of part-time experts in specific functions, will minimize "burn rate" during the pre-revenue phase.

The Company has sustained substantial operating losses in recent years, and expects to do so for two additional years. Also, its current liabilities exceed its current assets by $763,710 at March 31, 1999. Management believes that the actions described above will provide the basis for the Company to transition from a Development Stage Enterprise and commence principal operations, but can offer no assurances that its present plans will be sufficiently successful to enable the Company to continue to operate as a going concern.

NOTE 3. - CAPITAL TRANSACTION

In February 1999, Bishop (a non-operating public shell) entered into a merger agreement with Hemex and Aethlon whereby Bishop issued 1,350,000 and 733,500 shares of its common stock to Hemex and Aethlon, respectively, in exchange for 100% of their outstanding shares. Hemex and Aethlon survived as the operating entities and wholly-owned subsidiaries of Bishop. Bishop, who is currently doing business as Aethlon Medical, Inc., is in the process of formally changing its name to Aethlon Medical, Inc..

As a result of the merger, the Hemex shareholders became the majority owners of the Company and have effective operating control. Accordingly, the transaction has been accounted for as a reverse acquisition whereby Hemex is deemed to be the accounting acquirer of Bishop and Aethlon through the issuance of stock for their net monetary assets, followed by a recapitalization. The assets and liabilities of Aethlon and Bishop have been recorded at their historical cost, which approximated their fair market value. The results of operations include those of Bishop and Aethlon since the date of acquisition. Hemex has changed its fiscal year end from December 31 to that of Bishop, with Aethlon also adopting Bishop's fiscal year.





NOTE 3. - CAPITAL TRANSACTION (CONTINUED)

The following is a proforma summary of the results of operations had Hemex, Bishop and Aethlon been combined as of April 1, 1997:

<TABLE>
<CAPTION>

| | 1999 | 1998 |
|---|---|---|
| <S> | <C> | <C> |
| Net loss | $ (465,428) | $ (495,471) |

</TABLE>

NOTE 4. - LEASES

The Company rents laboratory space from the University of Buffalo Foundation on a month to month basis. Total rent expense for the years ended March 31, 1999 and 1998 was $32,429 and $37,916, respectively.

NOTE 5. - DEFERRED COMPENSATION

The Company has accrued but unpaid compensation obligations (deferred compensation) with two of its present officers/stockholders and two stockholders who are former officers. The Company has entered into an agreement with the individuals, the terms of which require the Company to compensate the individuals the amount owed as soon as the Company has funds available. To facilitate the capital transaction described in Note 3, the employees have agreed to accept a discounted amount as full payment of the deferred compensation. As a result, the deferred compensation liability presented in the accompanying financial statements has been discounted by 40 percent, reflecting the amount of funds management estimates will be available from a proposed private placement (see Note 2) to satisfy the payment of the deferred compensation. The amounts discounted and forgiven by the employee/stockholders in the amount of $217,223 have been recorded as an increase in additional paid in capital at March 31, 1999.

NOTE 6. - LOANS PAYABLE - STOCKHOLDERS

As of March 31, 1998, the Company had convertible loans payable to certain stockholders of Hemex aggregating $367,883. The loans accrued interest at rates ranging from 8% to 14%. The loans were convertible into shares of Hemex common stock at the rate of one share per $250 of outstanding loan balance. At December 31, 1998, outstanding loan balances of $367,883 along with accrued interest of $67,211 were converted into 1,740 shares of Hemex's common stock. Interest expense related to these loans for the years ended March 31, 1999 and 1998 amounted to $13,823 and $34,211, respectively.





NOTE 7. - INCOME TAXES

The Company has elected under Internal Revenue Code, Section 174, to capitalize for income tax purposes all research and development expenditures incurred in conjunction with its product development process. Net costs associated with the research and development process amount to approximately $3,224,000 at March 31, 1999. When the Company realizes benefits from such expenditures, the costs will be amortized over a period of 60 months.

A valuation allowance has been provided for 100 percent of the deferred tax asset as realization of the asset is contingent upon Food and Drug Administration approval of the HemopurifierTM and the Company generating sufficient taxable income to offset the research and development amortization expenses.

The Company's deferred tax assets as of March 31, 1999 and 1998 consist of:

<TABLE>
<CAPTION>

| | MARCH 31, | |
|---|---|---|
| | 1999 | 1998 |
| <S> | <C> | <C> |
| FEDERAL: | | |
| Deferred tax asset | $ 484,110 | $ 437,074 |
| Valuation allowance | 484,110 | 437,074 |
| | $ - | $ - |
| STATE: | | |

| | | |
|---|---|---|
| Deferred tax asset | $ 258,192 | $ 233,106 |
| Valuation allowance | 258,192 | 233,106 |
| Net deferred tax asset | $ - | $ - |

</TABLE>

NOTE 8. - RELATED PARTY TRANSACTIONS

In addition to the stockholder loans payable, the officers of the Company and other related entities regularly pay expenses on behalf of the Company. The officers also advance the Company funds to cover short-term working capital shortages. These non interest-bearing amounts have been included as accounts payable - related parties in the accompanying financial statements.





NOTE 9 - SUBSEQUENT EVENTS

Subsequent to the end of the fiscal year, the Company entered into an agreement to issue up to $750,000 of debt in units of $25,000 in a private placement offering. Each unit will contain a 12% interest rate and warrants to purchase 12,500 shares of common stock at a price of five dollars per share for a five-year term. The warrants may be called by the Company upon meeting certain per share market price goals.

# EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is made and entered into as of April 1, 1999, by and between Bishop Equities, Inc. dba Aethlon Medical, a Nevada corporation (the "Company") and Franklyn S. Barry, Jr. ("Executive").

## ARTICLE I

## DUTIES AND TERM

1.1 EMPLOYMENT. In consideration of their mutual covenants and other good and valuable consideration, the receipt, adequacy and sufficiency of which is hereby acknowledged, the Company agrees to hire Executive, and Executive agrees to remain in the employ of the Company, upon the terms and conditions herein provided.

1.2 POSITION AND RESPONSIBILITIES.

(a) Executive shall serve as the Chief Executive Officer and President of the Company and Hemex, Inc., a Delaware company (or in a capacity and with a title of at least substantially equivalent quality) reporting directly to the Board of Directors of the Company. Executive agrees to perform services not inconsistent with his position as shall from time to time be assigned to him by the Board of Directors.

(b) Executive further agrees to serve, if elected, as a director of the Company and as an officer or director of any subsidiary or affiliate of the Company.

(c) During the period of his employment hereunder, Executive shall devote substantially all of his business time, attention, skill and efforts to the faithful performance of his duties hereunder.

1.3 TERM. The term of Executive's employment under this Agreement shall commence on the date first above written and shall continue, unless sooner terminated, until March 31, 2001, and it will continue thereafter for successive One (1) year periods unless and until either party gives the other party written notice of termination at least Sixty (60) days prior to the end of a term.

## ARTICLE II

## COMPENSATION

For all services rendered by Executive in any capacity during his employment under this Agreement, including, without limitation, services as a director, officer or member of any committee of the Board of the Company or of the Board of Directors of any subsidiary or affiliate of the Company, the Company shall compensate Executive as follows:

2.1 BASE SALARY. The Company shall pay to Executive an annual base salary commencing April 1, 1999 of not less than $120,000.00 (the "Base Salary") during the first full calendar year of this Agreement. The Base Salary shall be reviewed annually by the Board or a committee designated by the Board and the Board or such committee may, in its discretion, increase the Base Salary.

2.2 INCENTIVE PAYMENT. During the period of Executive's employment under this Agreement, the Executive shall be eligible to participate in an incentive compensation program implemented by the Board (the "Annual Incentive Bonus").

2.3 ADDITIONAL BENEFITS. Executive shall be entitled to participate in all employee benefit and welfare programs, plans and arrangements (including, without limitation, pension, profit-sharing, supplemental pension and other retirement plans, insurance, hospitalization, medical and group disability benefits, travel or accident insurance plans) and to receive fringe benefits, such as dues and fees of professional organizations and associations, which are from time to time available to the Company's executive personnel; PROVIDED, HOWEVER, there shall be no duplication of termination or severance benefits, and to the extent that such benefits are specifically provided by the Company to Executive under other provisions of this Agreement, the benefits available under the foregoing plans and programs shall be reduced by any benefit amounts paid under such other provisions. Executive shall during the period of his employment hereunder continue to be provided with benefits at a level which shall in no event be less in any material respect than the benefits made available to Executive by the Company as of the date of this

Agreement. Notwithstanding the foregoing, the Company may terminate or reduce benefits under any benefit plans and programs to the extent such reductions apply uniformly to all Senior Executives entitled to participate therein, and Executive's benefits shall be reduced or terminated accordingly. Specifically, without limitation, Executive shall receive the following benefits:

(a) HEALTH INSURANCE. The Company shall provide Executive a monthly cash allowance for payment of health insurance premiums obtained by and for Executive (and Executive's spouse and/or dependents) up to a maximum of Four Hundred Dollars ($400.00) per month. Executive must submit to the Company



statements showing the actual amount of the health insurance premiums, and the Company shall have the option to either pay the health insurance premiums directly or to reimburse Executive for the health insurance premiums. The Company shall have the option to obtain a group medical insurance plan which covers Executive in place and stead of providing this monthly cash allowance. However, in no event shall Executive be entitled to a cash payment for any unused portion of the monthly allowance (i.e., if Executive's health insurance premiums are $300.00 per month, Executive is not entitled to receive cash for the unused $100.00 portion of the allowance).

(b) DISABILITY BENEFITS. In the event of Executive's failure substantially to perform his duties hereunder on a full-time basis for a period not exceeding 180 consecutive days or for periods aggregating not more than 180 days during any twelve-month period as a result of incapacity due to physical or mental illness, the Company shall continue to pay the Base Salary to Executive during the period of such incapacity, but only in the amounts and to the extent that disability benefits payable to Executive under Company-sponsored insurance policies are less than Executive's Base Salary. Additionally, during the term of this Agreement, including any renewals hereof, the Company shall procure and maintain, at its own expense, a long-term disability insurance policy for the benefit of Executive in the event of Executive's total disability (as defined in Section 6.1).

(c) REIMBURSEMENT OF BUSINESS EXPENSES. The Company shall, in accordance with standard Company policies, pay, or reimburse Executive for all reasonable travel and other expenses incurred by Executive in performing his obligations under this Agreement.

(d) VACATIONS. Executive shall be entitled to twenty (20) business days excluding Company holidays, of paid vacation during each year of employment hereunder. Executive may accrue and carry forward no more than ten (10) unused vacation days from any particular year of his employment under this Agreement to the next.

## ARTICLE III

## TERMINATION OF EMPLOYMENT

3.1 DEATH OR RETIREMENT OF EXECUTIVE. Executive's employment under this Agreement shall automatically terminate upon the death or retirement (as defined in Section 6.1) of Executive.

3.2 BY EXECUTIVE. Executive shall be entitled to terminate his employment under this Agreement by giving Notice of Termination (as defined in Section 6.1) to the Company:



(a) For good reason (as defined in Section 6.1);

(b) At any time commencing with the date six (6) months following the date of a change in control (as defined in Section 6.1) and ending with the date twelve (12) months after the date of such change in control (a "Change in Control Resignation"); and

(c) At any time without good reason.

3.3 BY COMPANY. The Company shall be entitled to terminate Executive's employment under this Agreement by giving Notice of Termination (as defined in Section 6.1) to Executive:

(a) In the event of Executive's total disability (as defined in Section 6.1);

(b) For cause (as defined in Section 6.1); and

(c) At any time without cause.

ARTICLE IV

COMPENSATION UPON TERMINATION OF EMPLOYMENT

If Executive's employment hereunder is terminated in accordance with the provisions of Article III hereof, except for any other rights or benefits specifically provided for herein following his period of employment, the Company shall be obligated to provide compensation and benefits to Executive only as follows, subject to the provisions of Section 5.4 hereof:

4.1 UPON TERMINATION FOR DEATH OR DISABILITY. If Executive's employment hereunder is terminated by reason of his death or total disability, the Company shall:

(a) Pay Executive (or his estate) or beneficiaries any Base Salary which has accrued but not been paid as of the termination date (the "Accrued Base Salary");

(b) Pay Executive (or his estate) or beneficiaries for unused vacation days accrued as of the termination date in an amount equal to his Base Salary multiplied by a fraction the numerator of which is the number of accrued unused vacation days and the denominator of which is 360 (the "Accrued Vacation Payment");



(c) Reimburse Executive (or his estate) or beneficiaries for expenses incurred by him prior to the date of termination which are subject to reimbursement pursuant to this Agreement (the "Accrued Reimbursable Expenses");

(d) Provide to Executive (or his estate) or beneficiaries any accrued and vested benefit required to be provided by the terms of any Company-sponsored benefit plans or programs (the "Accrued Benefits"), together with any benefits required to be paid or provided in the event of Executive's death or total disability under applicable law;

(e) Pay Executive (or his estate) or beneficiaries any Annual Incentive Bonus with respect to a prior fiscal year which has accrued but has not been paid, plus a portion of the Annual Incentive Bonus for the year in which Executive's employment is terminated hereunder computed at the end of the fiscal year and pro rated to reflect the portion of the fiscal year that Executive was employed by the Company (collectively, the "Accrued Annual Incentive Bonus"); and in addition,

(f) Executive (or his estate) or beneficiaries shall have the right to exercise all vested unexercised stock options and warrants outstanding at the termination date in accordance with terms of the plans and agreements pursuant to which such options or warrants were issued.

4.2 UPON TERMINATION BY COMPANY FOR CAUSE OR BY EXECUTIVE OTHER THAN FOR GOOD REASON. If Executive's employment is terminated by the Company for Cause, or if Executive terminates his employment with the Company other than (x) upon Executive's death or total disability, (y) for good reason, or (z) pursuant to a Change In Control Resignation (as defined in Section 3.2(b), the Company shall:

(a) Pay Executive the Accrued Base Salary;

(b) Pay Executive the Accrued Vacation Payment;

(c) Pay Executive the Accrued Reimbursable Expenses;

(d) Pay Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) Pay Executive any Annual Incentive Bonus with respect to a prior fiscal year which has accrued but has not been paid; and in addition

(f) Executive shall have the right to exercise vested options and warrants in accordance with Section 4.1(f).



4.3 UPON TERMINATION BY THE COMPANY WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON OR PURSUANT TO A CHANGE IN CONTROL RESIGNATION. If Executive's employment is terminated (i) by the Company Without Cause, or (ii) by

Executive for Good Reason, or (iii) pursuant to a Change in Control Resignation, the Company shall:

(a) Pay Executive the Accrued Base Salary;

(b) Pay Executive the Accrued Vacation Payment;

(c) Pay Executive the Accrued Reimbursable Expenses;

(d) Pay Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) Pay Executive the Accrued Annual Incentive Bonus;

(f) Pay Executive commencing on the thirtieth (30th) day following the termination date twelve (12) monthly payments equal to one-twelfth (1/12th) of Executive's Base Salary in effect immediately prior to the time such termination occurs;

(g) Maintain in full force and effect, for Executive's and his eligible beneficiaries' continued benefit, until the first to occur of (x) his attainment of alternative employment or (y) twelve (12) months following the termination date of his employment hereunder the employee benefits provided pursuant to Company-sponsored benefit plans, programs or other arrangements in which Executive was entitled to participate as a full-time employee immediately prior to such termination in accordance with Section 2.4 hereof, subject to the terms and conditions of such plans and programs (the "Continued Benefits"). If Executive's continued participation is not permitted under the general terms and provisions of such plans, programs and arrangements, the Company shall arrange to provide Executive with Continued Benefits substantially similar to those which Executive would have been entitled to receive under such plans, programs and arrangements; and in addition

(h) Executive shall have the right to exercise all vested unexercised stock options and warrants in accordance with Section 4.1(f).



## ARTICLE V

## RESTRICTIVE COVENANTS

5.1 CONFIDENTIALITY.

(a) Executive covenants and agrees to hold in strictest confidence, and not disclose to any person without the express written consent of the Company, any and all of the Company's proprietary information, as defined in Subparagraph (c) below, except as such disclosure may be required in connection with his employment hereunder. This covenant and agreement shall survive this Agreement and continue to be binding upon Executive after the expiration or termination of this Agreement, whether by passage of time or otherwise, so long as such information and data shall remain proprietary information.

(b) Upon expiration or termination of this Agreement for any reason, Executive shall immediately turnover to the Company any "Proprietary Information." Executive shall have no right to retain any copies of any material qualifying as Proprietary Information for any reason whatsoever after expiration or termination of his employment hereunder without the express written consent of the Company.

(c) For purposes of this Agreement, "Proprietary Information" means and includes the following: the identity of clients or customers or potential clients or customers of the Company or its affiliates; any written, typed or printed lists, or other materials identifying the clients or customers of the Company or its affiliates; Research & Development programs, plans and discoveries; product development, marketing, and plans; any business plans or strategic contracts, partnerships or alliances; any financial or other information supplied by clients or customers of the Company or its affiliates; any and all data or information involving the Company, its affiliates, programs, methods or contacts employed by the Company or its affiliates in the conduct of their business; any lists, documents, manuals, records, forms or other materials used by the Company or its affiliates in the conduct of their business; any descriptive materials describing the methods and procedures employed by the Company or its affiliates in the conduct of their business; and any other secret or confidential information concerning the Company's or its affiliates' business or affairs. The terms "list," "document" or their equivalents, as used in this Subparagraph (c), are not limited to a physical writing or compilation but also include any and all information whatsoever regarding the subject matter of the "list" or "documents," whether or not such compilation has been reduced to writing. "Proprietary Information" shall not include any information which: (i) is or becomes publicly available through no act or failure of Executive; (ii)

was or is rightfully learned by Executive from a source other than the Company before being received from the Company; or (iii) becomes independently available to Executive as a matter of right from



a third party. If only a portion of the Proprietary Information is or becomes publicly available, then only than portion shall not be Proprietary Information hereunder.

(d) Executive acknowledges that he is the Chief Executive Officer and President of the Company and in such capacity he will be a representative of the Company with respect to clients and potential clients of the Company. Executive also acknowledges that he has had and will continue to have access to confidential information about the Company, its affiliates, and their clients and that "Proprietary Information" acquired by him at the expense of the Company is for use in its business. Executive has substantial experience in the management of entrepreneurial companies and possesses special, unique, extraordinary skills and knowledge in this field. Executive's management and financial services to the Company are special, unique and extraordinary and the success or failure of the Company is dependent upon his discharge of his duties and obligations. Accordingly, by execution of this Agreement, and subject to Subparagraph (c) hereof, Executive agrees that during his employment with the Company and for a period of Two (2) years immediately after termination of his employment with the Company (the "Non-Competition Period"), he shall not violate the provisions of Section 5.2.

5.2 COMPETITION.

(a) During the Non-Competition Period specified in Section 5.1(d), Executive shall not:

(i) Except as a passive investor in publicly-held companies, and except for investments held as of the date hereof, directly or indirectly own, operate, mange, consult with, control, participate in the management or control of, be employed by, maintain or continue any interest whatsoever in any company that directly competes with the Company or any parent corporation, subsidiary corporation, or affiliated entity or company (hereinafter referred to as an "Affiliate") in the United States; or

(ii) Directly or indirectly solicit any business of a nature that is directly competitive with the business of the Company or an Affiliate from any individual or entity that obtained such products or services from the Company or its Affiliates at any time during his employment with the Company; or

(iii) Directly or indirectly solicit any business of a nature that is directly competitive with the business of the Company or an Affiliate from any individual or entity solicited by him on behalf of the Company or its Affiliates; or

(iv) Employ, or directly or indirectly solicit, or cause the solicitation of, any employees of the Company or its Affiliates who are in the employ of the Company or its Affiliates on the termination date of his employment hereunder for employment by others.



(b) Executive expressly agrees and acknowledges that:

(i) The Company and its Affiliates have protected business interests throughout North America, Europe, and Asia and that competition with and against such business interests would be harmful to the Company and/or its Affiliates;

(ii) This covenant not to compete is reasonable as to time and geographical area and does not place any unreasonable burden upon him;

(iii) The general public will not be harmed as a result of enforcement of this covenant not to compete;

(iv) He has had the opportunity to review this covenant not to compete with his own independent legal counsel; and

(v) He understands and hereby agrees to each and every term and condition of to this covenant not to compete (including, without limitation, the provisions of Section 5.4).

5.3 NON-DISPARAGEMENT. During the term of this Agreement and the Non-Competition Period, neither Executive nor the Company shall disparage the other, and neither shall disclose to any third party the conditions of

Executive's employment with the Company except as may be required (i) pursuant to applicable law or regulations, including the rules and regulations of the Securities and Exchange Commission, (ii) to effectuate the provisions of employee plans or programs and insurance policies, or (iii) as may be otherwise contemplated herein or unless such information becomes publicly available without fault of the party making such disclosure.

5.4 REMEDIES. Executive expressly agrees and acknowledges that this covenant not to compete is necessary for the protection of the Company and its affiliates because of the nature and scope of their business and his position with the Company. Further, Executive acknowledges that any breach of this covenant not to compete would result in irreparable damage to the Company, and in the event of his breach of this covenant not to compete, money damages will not sufficiently compensate the Company for its injury caused thereby, and that the remedy at law for any breach or threatened breach of Sections 5.1, 5.2 and 5.3 will be inadequate and, accordingly agrees, that the Company shall, in addition to all other available remedies (including without limitation, seeking such damages as it can show it has sustained by reason of such breach), be entitled to injunctive relief or specific performance and that in addition to such money damages he may be restrained and enjoined from any continuing breach of this covenant not to compete without any bond or other security being required of any court. Executive further acknowledges and agrees that if the covenant not to compete herein is deemed to be unenforceable and/or the Executive fails to comply with this Article V, the Company



has no obligation to provide any compensation or other benefits described in Article IV hereof.

5.5 OWNERSHIP OF INVENTIONS.

(a) During the employment by the Company, Executive will have access to trade secrets, data, know-how, knowledge or other confidential information originated in the Company or disclosed to the Company by others under agreements to hold the same confidential (collectively referred to as "Confidential Information"). Executive acknowledges that Confidential Information includes any information not readily available to the public, and includes not only technical information but also business information. In addition, Executive may, during the period of employment, create, make, develop or conceive inventions, discoveries, concepts, ideas, designs, works of authorship, developments, information, improvements, or trade secrets, whether patentable or not, and whether solely or jointly with others, which may or may not also constitute Confidential Information (collectively referred to as "Inventions"). Executive agrees that all works of authorship to which Executive contributes shall be considered "works made for hire" and shall be the sole property of the Company.

(b) Executive agrees that Executive will neither utilize any Confidential Information for Executive's own benefit or for the benefit of anyone except the Company, nor disclose, disseminate, lecture upon or publish articles about any Confidential Information to any one outside the Company, or to any officer or employee of the Company not also having access to Confidential Information, at any time either during or after employment by the Company.

(c) Executive agrees to disclose promptly, in writing to Executive's Supervisor, Company's Counsel and Chief Scientific Officer, any Inventions that Executive may make, develop or conceive, solely or jointly, during the period of employment by the Company, or by its predecessors, successors in business, subsidiaries, parents or affiliates. All such Inventions shall be and remain the property of the Company. Executive hereby assigns to the Company all Executive's rights, titles and interests in and to any such Inventions, whether or not such Inventions may be reduced to practice during the period of Executive's employment, and to execute all patent or copyright applications, assignments and other documents, and to take all other steps necessary, to vest in the Company the entire right, title and interest in and to those Inventions and in and to any patents or copyrights obtainable therefor in the United States and in foreign countries, all at the Company's expense, but for no consideration to Executive in addition to Executive's salary or wages. Executive agrees to keep adequate records of all Inventions and make such records available to the Company.

(d) If the Company chooses to prosecute applications for patents or copyrights for any such Inventions, the Company shall assume the entire expense of preparing, filing and prosecuting such applications, through counsel appointed



by the Company; provided, however, that the Company is under no obligation to prosecute such applications. Executive agrees to cooperate with the Company

and do whatever is necessary or appropriate to obtain patents, copyrights or other legal protections for Inventions. If Executive is incapacitated or refuses to so cooperate for any reason, Executive hereby authorizes the Company to act as Executive's agent and to take whatever actions, or execute whatever documents, may be needed to carry out this Agreement.

(e) All records and other material pertaining to Confidential Information, whether developed by Executive or others, shall be and remain the property of the Company. Upon termination of Executive's employment with the Company, all documents, records, notebooks and other material of any kind pertaining to or containing Confidential Information then in Executive's possession, or under Executive's control, whether prepared by Executive or others, will be returned to the Company unconditionally.

(f) Executive shall not be obligated to assign any Invention which relates to or would be useful in any business or activities in which the Company is engaged if such Invention was conceived and reduced to practice by Executive prior to Executive's employment with the Company, provided that all such Inventions are listed at the time of employment on the attached Exhibit "B." If no entry is made on Exhibit "B," then such entry shall be deemed to be "none," whether or not Exhibit "B" is signed by Executive. Except as listed on Exhibit "B," Executive will not assert any rights to any Inventions, as having been made or acquired by Executive prior to being employed by the Company.

(g) Executive shall not be obligated to assign any Invention which may be wholly conceived by Executive after Executive leaves the employ of the Company, except that Executive is so obligated if such Invention shall involve the utilization of Confidential Information of the Company.

(h) Notwithstanding anything in this Agreement to the contrary, Executive shall not be obligated to assign to the Company and of Executive's rights in an Invention that the Executive developed entirely on Executive's own time without using the Company's equipment, supplies, facilities or Confidential Information, except for those Inventions that either: (i) relate, at the time of conception or reduction to practice of Invention, to either the Company's business, or actual or demonstrably anticipated research or development of the Company, or (ii) result from any work performed by the Executive for the Company. THIS AGREEMENT DOES NOT APPLY TO ANY INVENTION WHICH QUALIFIES FULLY UNDER THE PROVISIONS OF CALIFORNIA LABOR CODE SECTION 2870 OR ANY OTHER SUBSTANTIALLY EQUIVALENT LAW IN THE STATE IN WHICH THE EXECUTIVE IS EMPLOYED. With regard to those Inventions which Executive is not obligated to assign to the Company, Executive shall give the Company a right of first refusal on any and all such Inventions and the right to meet any firm offer of another for



such Inventions. The Company must exercise such right of first refusal within thirty (30) days of receipt of written notice from Executive setting forth such offer.

## ARTICLE VI

## MISCELLANEOUS

6.1 DEFINITIONS. For purposes of this Agreement, the following terms shall have the following ---------- meanings:

(a) "Accrued Annual Incentive Bonus" - as defined in Section 4.1(e);

(b) "Accrued Base Salary" - as defined in Section 4.1(a);

(c) "Accrued Benefits" - as defined in Section 4.1(d);

(d) "Accrued Reimbursable Expenses" - as defined in Section 4.1(c);

(e) "Annual Vacation Payment" - as defined in Section 4.1(b);

(f) "Annual Incentive Bonus" - as defined in Section 2.2(b)

(g) "Base Amount" - as defined in Section 4.4(b);

(h) "Base Salary" - as defined in Section 2.1;

(j) "Board" - shall mean the Board of Directors of the Company;

(k) "Cause" shall mean the occurrence of any of the following:

(i) Executive's gross and willful misconduct which is injurious to the Company;

(ii) Executive's engaging in fraudulent conduct with respect to the Company's business or in conduct of a criminal nature that may have an

adverse impact on the Company's standing and reputation;

(iii) The continued and unjustified failure or refusal by Executive to perform the duties required of him by this Agreement which failure or refusal shall not be cured within fifteen (15) days following (a) receipt of Executive of



written notice from the Board specifying the factors or events constituting such failure or refusal, and (b) a reasonable opportunity for Executive to correct such deficiencies;

(iv) Executive's use of drugs and/or alcohol in violation of then current Company policy; or

(v) Executive's breach of his obligation under Section 1.2(c) hereof which shall not be cured within fifteen (15) days after written notice thereof to Executive.

(l) "Change In Control" shall mean and shall be deemed to have occurred if:

(i) After the date of this Agreement, any "person" (as such term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision thereto) shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act or any successor provision thereof) directly or indirectly of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company's then outstanding securities ordinarily having the right to vote at an election of directors; PROVIDED, HOWEVER, that, for purposes of this Subparagraph, "person" shall exclude the Company, its subsidiaries, any person acquiring such securities directly from the Company, any employee benefit plan sponsored by the Company or from Executive or any stockholder owning fifteen percent (15%) or more of the combined voting power of the Company's outstanding securities as of the date of this Agreement; or

(ii) Any stockholder of the Company owning fifteen percent or more of the combined voting power of the Company's outstanding securities as of the date of this Agreement shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Company (other than through the acquisition of securities directly from the Company or from Executive) representing thirty-three and one-third percent (33 1/3%) or more of the combined voting power of the Company's then outstanding securities ordinarily having the right to vote at an election of directors; or

(iii) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least eighty percent (80%) of the Board; provided, however, that any person becoming a member of the Board subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least eighty percent (80%) of the members then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act



or any successor provision thereto) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iv) Approval by the stockholders of the Company and consummation of (a) a reorganization, merger, consolidation, or sale or other disposition of all or substantially all of the assets of the Company, in each case, with or to a corporation or other person or entity of which persons who were the stockholders of the Company immediately prior to such transaction do not, immediately thereafter, own more than sixty percent (60%) of the combined voting power of the outstanding voting securities entitled to vote generally in the election of directors of the reorganized, merged, consolidated or purchasing corporation (or, in the case of a non-corporate person or entity) were not members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger, consolidation or sale, or (b) a liquidation or dissolution of the Company.

(m) "Change In Control Resignation" - as defined in Section 3.2(b);

(n) "Continued Benefits" - as defined in Section 4.3(g);

(o) "Expiration" shall mean the expiration of Executive's employment hereunder in accordance with Section 1.3;

(p) "Good Reason" shall mean the occurrence of any of the following:

(i) The Company's failure to elect or reelect or to appoint or reappoint Executive to offices, titles or positions carrying comparable authority, responsibilities, dignity and importance to that of Executive's offices and positions as of April 1, 1999;

(ii) Material change by the Company in Executive's function, duties or responsibilities (including reporting responsibilities) which would cause Executive's position with the Company to become of less dignity, responsibility and importance than those associated with his functions, duties or responsibilities as of April 1, 1999; or

(iii) Other material breach of this Agreement by the Company, which breach is not cured within fifteen (15) days after written notice thereof is received by the Company.

(q) "Non-Competition Period" - as defined in Section 5.1(d);

(r) "Notice of Termination" shall mean a notice which shall indicate the specific termination provision of this Agreement relied upon and shall set



forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provisions so indicated. Each Notice of Termination shall be delivered at least sixty (60) days prior to the effective date of termination;

(s) "Proprietary Information" - as defined in Section 5.1(c);

(t) "Retirement" shall mean normal retirement at age as determined by the Board;

(u) "Senior Executives" shall mean the chief executive officer and the four (4) most highly compensated executive officers of the Company determined in accordance with the rules and regulations of the Securities and Exchange Commission under the Exchange Act;

(v) "Termination" shall mean the termination of Executive's employment hereunder other than upon expiration of the term of such employment in accordance with Section 1.3;

(w) "Total Disability" shall mean Executive's failure substantially to perform his duties hereunder on a full-time basis for a period exceeding one hundred eighty (180) consecutive days or for periods aggregating more than 180 days during any twelve-month period as a result of incapacity due to physical or mental illness. If there is a dispute as to whether Executive is or was physically or mentally unable to perform his duties under this Agreement, such dispute shall be submitted for resolution to a licensed physician agreed upon by the Board and Executive, or if an agreement cannot be promptly reached, the Board and Executive each shall promptly select a physician, and if these physicians cannot agree, the physicians shall promptly select a third physician whose decision shall be binding on all parties. If such a dispute arises, Executive shall submit to such examinations and shall provide such information as such physician(s) may request, and the determination of the physician(s) as to Executive's physical or mental condition shall be binding and conclusive. Notwithstanding the foregoing, if Executive participates in any group disability plan provided by the Company which offers long-term disability benefits, "Total Disability" shall mean total disability as defined therein.

6.2 KEY MAN INSURANCE. The Company shall have the right, in its sole discretion, to purchase "key man" insurance on the life of Executive. The Company shall be the owner and beneficiary of any such policy. If the Company elects to purchase a policy, Executive shall take such physical examinations and supply such information as may be reasonably requested by the insurer.

6.3 MITIGATION OF DAMAGES; NO SET-OFF; DISPUTE RESOLUTION.

(a) Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise,



nor shall the amount of any payment provided for in this Agreement be reduced by

any compensation earned by Executive as the result of employment by another employer after the date of termination of his employment hereunder or otherwise. The Company's obligation to make the payments provided for in this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim or action which the Company may have against Executive.

(b) If there shall be any dispute between the Company and Executive (i) in the event of any termination of Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by Executive, whether Good Reason existed, or (iii) otherwise, the dispute shall be resolved in accordance with the dispute resolution procedures set forth in Exhibit "A" hereto, the provisions of which are incorporated as a part hereof, and the parties hereto hereby agree that such dispute resolution procedures shall be the exclusive method for resolution of disputes under this Agreement. In the event of a dispute hereunder as to whether a termination by the Company was for Cause or by the Executive for Good Reason, until there is a resolution and award as provided in Exhibit "A," the Company shall pay all amounts, and provide all benefits, to Executive and/or Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide hereunder as though such termination were by the Company without Cause or by Executive for Good Reason and shall pay the reasonable legal fees and expenses of counsel for Executive in connection with such dispute resolution; provided, however, that the Company shall not be required to pay any disputed amounts or any legal fees and expenses pursuant to this Subparagraph (b) except upon receipt of a written undertaking by or on behalf of Executive (and/or Executive's family or other beneficiaries, as the case may be) to repay, without interest or penalty, as soon as practicable after completion of the dispute resolution (A) all such amounts to which Executive (or Executive's family or other beneficiaries, as the case may be) is ultimately adjudged to not be entitled with respect to the payment of such disputed amount(s) and (B) in addition, in the case of legal fees and expenses, a proportionate amount of legal fees and expenses attributable to any of Executive's claim(s) or any of Executive's defenses or counter-claim(s), if any, which shall have been found by the dispute resolver to have been frivolous or without merit.

6.4 SUCCESSORS; BINDING AGREEMENT. This Agreement shall be binding upon any successor to the Company and shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, beneficiaries, designees, executors, administrators, heirs, distributees, devisees and legatees.

6.5 MODIFICATION; NO WAIVER. This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument by the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such



waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any other term or condition.

6.6 SEVERABILITY. The covenants and agreements contained herein are separate and severable and the invalidity or unenforceability of any one or more of such covenants or agreements, if not material to the employment arrangement that is the basis for this Agreement, shall not affect the validity or enforceability of any other covenant or agreement contained herein. If, in any judicial proceeding, a court shall refuse to enforce one or more of the covenants or agreements contained herein because the duration thereof is too long, or the scope thereof is too broad, it is deemed reduced to the extent necessary to permit the enforcement of such covenants or agreements.

6.7 NOTICES. All the notices and other communications required or permitted hereunder shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, to the parties hereto at the following addresses:

If to the Company, to it at:

Bishop Equities, Inc. dba Aethlon Medical
7825 Fay Avenue
Suite 200
La Jolla, California 92037

If Executive, to him at:

Mr. Franklyn S. Barry, Jr.
143 Windsor Avenue
Buffalo, New York 14209

6.8 ASSIGNMENT. This Agreement and any rights hereunder shall not be assignable by either party without the prior written consent of the other party except as otherwise specifically provided for herein.

6.9 ENTIRE UNDERSTANDING. This Agreement (together with the Exhibit incorporated as a part hereof) constitutes the entire understanding between the parties hereto and no agreement, representation, warranty or covenant has been made by either party except as expressly set forth herein.

6.10 EXECUTIVE'S REPRESENTATIONS. Executive represents and warrants that neither the execution and delivery of this Agreement nor the performance of his duties hereunder violates the provisions of any other agreement to which he is a party or by which he is bound.



6.11 LIABILITY OF COMPANY WITH RESPECT TO INSURANCE POLICY. Executive has selected the insurer and policy referred to in Section 2.4(a) hereof, and the Company shall not have any liability to Executive (or his beneficiaries) should the insurance company which issues the policy referred to therein fail or refuse to pay (whether voluntarily or by reason of any order, injunction or otherwise) thereunder or if any rights or elections otherwise available to Executive thereunder are restricted or eliminated.

6.12 GOVERNING LAW. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of New York applicable to contracts executed and wholly performed within such state.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

COMPANY

BISHOP EQUITIES, INC.,
a Nevada corporation dba Aethlon Medical

By:
---
James A. Joyce

Its: Chairman of the Board

EXECUTIVE

FRANKLYN S. BARRY, JR.

By:
---
Franklyn S. Barry, Jr.



EXHIBIT "A"

DISPUTE RESOLUTION PROCEDURES

A. If a controversy should arise which is covered by Section 6.3 of Article VI, then not later than twelve (12) months from the date of the event which is the subject of dispute either party may serve on the other a written notice specifying the existence of such controversy and setting forth in reasonably specific detail the grounds thereof ("Notice of Controversy"); PROVIDED THAT, in any event, the other party shall have at least thirty (30) days from and after the date of the Notice of Controversy to serve a written notice of any counterclaim ("Notice of Counterclaim"). The Notice of Counterclaim shall specify the claim or claims in reasonably specific detail. If the Notice of Controversy or the Notice of Counterclaim, as the case may be, is not served within the applicable period, the claim set forth therein will be deemed to have been waived, abandoned and rendered unenforceable.

B. Following receipt of the Notice of Controversy (or the Notice of Counterclaim, as the case may be), there shall be a three (3) week period during which the parties will make a good faith effort to resolve the dispute through negotiation ("Period of Negotiation"). Neither party shall take

any action during the Period of Negotiation to initiate arbitration proceedings.

C. If the parties should agree during the Period of Negotiation to mediate the dispute, then the Period of Negotiation shall be extended by an amount of time to be agreed upon by the parties to permit such mediation. In no event, however, may the Period of Negotiation be extended by more than five (5) weeks or, stated differently, in no event may the Period of Negotiation be extended to encompass more than a total of eight (8) weeks.

D. If the parties agree to mediate the dispute but are thereafter unable to agree within one (1) week on the format and procedures for the mediation, then the effort to mediate shall cease, and the Period of Negotiation shall terminate four (4) weeks from the Notice of Controversy (or the Notice of Counterclaim, as the case may be).

E. Following the termination of the Period of Negotiation, the dispute (including the main claim and counterclaim, if any) shall be settled by arbitration, and judgment upon the award may be entered in any court having jurisdiction thereof. The format and procedures of the arbitration are set forth below (referred to below as the "Arbitration Agreement").

F. A notice of intention to arbitrate ("Notice of Arbitration") shall be served within forty-five (45) days of the termination of the Period of Negotiation. If the Notice of Arbitration is not served within this period, the claim set forth in the Notice of



Controversy (or the Notice of Counterclaim, as the case may be) will be deemed to have been waived, abandoned and rendered unenforceable.

G. The arbitration, including the Notice of Arbitration, will be governed by the Commercial Rules of the American Arbitration Association except that the terms of this Arbitration Agreement shall control in the event of any difference or conflict between such Rules and the terms of this Arbitration Agreement. The arbitration shall be scheduled to take place in Buffalo, New York.

H. The dispute resolver shall reach a decision on the merits on the basis of applicable legal principles as embodied in the law of the State of New York.

I. There shall be one dispute resolver, regardless of the amount in controversy. The dispute resolver will be empowered to render an award and interim decisions and shall be a member of the bar of any of the fifty States of the United States or of the District of Columbia. The dispute resolver shall be promptly appointed pursuant to Rule 13 of the Commercial Rules of the American Arbitration Association ("AAA"). If the dispute resolver has not been appointed within forty-five (45) days of the AAA's initial transmission of lists of potential arbitrators, then the AAA shall unilaterally designate the dispute resolver.

J. At the time of appointment and as a condition thereto, the dispute resolver will be apprised of the time limitations and other provisions of this Arbitration Agreement and shall indicate such dispute resolver's agreement to the Tribunal Administrator to comply with such provisions and time limitations.

K. During the 30-day period following appointment of the dispute resolver, either party may serve on the other a request for limited numbers of documents directly related to the dispute. Such documents will be produced within seven (7) days of the request.

L. Following the 30-day period of document production, there will be a forty-five (45) day period during which limited depositions will be permissible. Neither party will take more than five (5) depositions, and no deposition will exceed three (3) hours of direct testimony.

M. Disputes as to discovery or prehearing matters of a procedural nature shall be promptly submitted to the dispute resolver pursuant to telephone conference call or otherwise. The dispute resolver shall make every effort to render a ruling on such interim matters at the time of the hearing (or conference call) or within five (5) business days thereafter.

N. Following the period of depositions, the arbitration hearing shall promptly commence. The dispute resolver will make every effort to commence the



hearing within thirty (30) days of the conclusion of the deposition period and, in addition, will make every effort to conduct the hearing on

consecutive business days to conclusion.

O. An award will be rendered, at the latest, within nine (9) months of the date of the Notice of Arbitration and within thirty (30) days of the close of the arbitration hearing. The award shall set forth the grounds for the decision in reasonably specific detail and shall also specify whether any claim (or defense or counterclaim) of Executive is found to be frivolous or without merit and what proportion, if any, of his legal fees and expenses which have been paid by the Company Executive shall be required to repay to the Company in accordance with Section 6.3(b). The award shall be final and nonappealable.

P. THE PARTIES HEREBY ACKNOWLEDGE AND AGREE THAT THEY ARE WAIVING THEIR RIGHTS TO A TRIAL IN A STATE OR FEDERAL COURT AND ARE ALSO WAIVING THEIR RIGHT TO A JURY TRIAL.

| COMPANY | EXECUTIVE |
|---|---|
| BISHOP EQUITIES, INC., a Nevada corporation dba Aethlon Medical | FRANKLYN S. BARRY, JR. |
| By: ---------- James A. Joyce | By: ---------- Franklyn S. Barry, Jr. |
| Its: Chairman of the Board | |



EXHIBIT "B"

LIST OF INVENTIONS
CREATED PRIOR TO EMPLOYMENT WITH THE COMPANY

# EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is made and entered into as of April 1, 1999, by and between Bishop Equities, Inc. dba Aethlon Medical, a Nevada corporation (the "Company") and James A. Joyce ("Executive").

## ARTICLE I

## DUTIES AND TERM

1.1 EMPLOYMENT. In consideration of their mutual covenants and other good and valuable consideration, the receipt, adequacy and sufficiency of which is hereby acknowledged, the Company agrees to hire Executive, and Executive agrees to remain in the employ of the Company, upon the terms and conditions herein provided.

1.2 POSITION AND RESPONSIBILITIES.

(a) Executive shall serve as the Chairman of the Board of the Company (or in a capacity and with a title of at least substantially equivalent quality) reporting directly to the Board of Directors of the Company. Executive agrees to perform services not inconsistent with his position as shall from time to time be assigned to him by the Chief Executive Officer of the Company.

(b) Executive further agrees to serve, if elected, as a director of the Company and as an officer or director of any subsidiary or affiliate of the Company.

(c) During the period of his employment hereunder, Executive shall devote substantially all of his business time, attention, skill and efforts to the faithful performance of his duties hereunder.

1.3 TERM. The term of Executive's employment under this Agreement shall commence on the date first above written and shall continue, unless sooner terminated, until March 31, 2001, and it will continue thereafter for successive One (1) year periods unless and until either party gives the other party written notice of termination at least Sixty (60) days prior to the end of a term.

## ARTICLE II

## COMPENSATION

For all services rendered by Executive in any capacity during his employment under this Agreement, including, without limitation, services as a director, officer or member of any committee of the Board of the Company or of the Board of Directors of any subsidiary or affiliate of the Company, the Company shall compensate Executive as follows:

2.1 BASE SALARY. The Company shall pay to Executive an annual base salary commencing April 1, 1999 of not less than $120,000.00 (the "Base Salary") during the first full calendar year of this Agreement. The Base Salary shall be reviewed annually by the Board or a committee designated by the Board and the Board or such committee may, in its discretion, increase the Base Salary.

2.2 INCENTIVE PAYMENT. During the period of Executive's employment under this Agreement, the Executive shall be eligible to participate in an incentive compensation program implemented by the Board (the "Annual Incentive Bonus").

2.3 ADDITIONAL BENEFITS. Executive shall be entitled to participate in all employee benefit and welfare programs, plans and arrangements (including, without limitation, pension, profit-sharing, supplemental pension and other retirement plans, insurance, hospitalization, medical and group disability benefits, travel or accident insurance plans) and to receive fringe benefits, such as dues and fees of professional organizations and associations, which are from time to time available to the Company's executive personnel; PROVIDED, HOWEVER, there shall be no duplication of termination or severance benefits, and to the extent that such benefits are specifically provided by the Company to Executive under other provisions of this Agreement, the benefits available under the foregoing plans and programs shall be reduced by any benefit amounts paid under such other provisions. Executive shall during the period of his employment hereunder continue to be provided with benefits at a level which shall in no event be less in any material respect than the

benefits made available to Executive by the Company as of the date of this Agreement. Notwithstanding the foregoing, the Company may terminate or reduce benefits under any benefit plans and programs to the extent such reductions apply uniformly to all Senior Executives entitled to participate therein, and Executive's benefits shall be reduced or terminated accordingly. Specifically, without limitation, Executive shall receive the following benefits:

(a) HEALTH INSURANCE. The Company shall provide Executive a monthly cash allowance for payment of health insurance premiums obtained by and for Executive (and Executive's spouse and/or dependents) up to a maximum of Four Hundred Dollars ($400.00) per month. Executive must submit to the Company



statements showing the actual amount of the health insurance premiums, and the Company shall have the option to either pay the health insurance premiums directly or to reimburse Executive for the health insurance premiums. The Company shall have the option to obtain a group medical insurance plan which covers Executive in place and stead of providing this monthly cash allowance. However, in no event shall Executive be entitled to a cash payment for any unused portion of the monthly allowance (i.e., if Executive's health insurance premiums are $300.00 per month, Executive is not entitled to receive cash for the unused $100.00 portion of the allowance).

(b) DISABILITY BENEFITS. In the event of Executive's failure substantially to perform his duties hereunder on a full-time basis for a period not exceeding 180 consecutive days or for periods aggregating not more than 180 days during any twelve-month period as a result of incapacity due to physical or mental illness, the Company shall continue to pay the Base Salary to Executive during the period of such incapacity, but only in the amounts and to the extent that disability benefits payable to Executive under Company-sponsored insurance policies are less than Executive's Base Salary. Additionally, during the term of this Agreement, including any renewals hereof, the Company shall procure and maintain, at its own expense, a long-term disability insurance policy for the benefit of Executive in the event of Executive's total disability (as defined in Section 6.1).

(c) REIMBURSEMENT OF BUSINESS EXPENSES. The Company shall, in accordance with standard Company policies, pay, or reimburse Executive for all reasonable travel and other expenses incurred by Executive in performing his obligations under this Agreement.

(d) VACATIONS. Executive shall be entitled to twenty (20) business days excluding Company holidays, of paid vacation during each year of employment hereunder. Executive may accrue and carry forward no more than ten (10) unused vacation days from any particular year of his employment under this Agreement to the next.

## ARTICLE III

## TERMINATION OF EMPLOYMENT

3.1 DEATH OR RETIREMENT OF EXECUTIVE. Executive's employment under this Agreement shall automatically terminate upon the death or retirement (as defined in Section 6.1) of Executive.

3.2 BY EXECUTIVE. Executive shall be entitled to terminate his employment under this Agreement by giving Notice of Termination (as defined in Section 6.1) to the Company:



(a) For good reason (as defined in Section 6.1);

(b) At any time commencing with the date six (6) months following the date of a change in control (as defined in Section 6.1) and ending with the date twelve (12) months after the date of such change in control (a "Change in Control Resignation"); and

(c) At any time without good reason.

3.3 BY COMPANY. The Company shall be entitled to terminate Executive's employment under this Agreement by giving Notice of Termination (as defined in Section 6.1) to Executive:

(a) In the event of Executive's total disability (as defined in Section 6.1);

(b) For cause (as defined in Section 6.1);
and

(c) At any time without cause.

ARTICLE IV

COMPENSATION UPON TERMINATION OF EMPLOYMENT

If Executive's employment hereunder is terminated in accordance with the provisions of Article III hereof, except for any other rights or benefits specifically provided for herein following his period of employment, the Company shall be obligated to provide compensation and benefits to Executive only as follows, subject to the provisions of Section 5.4 hereof:

4.1 UPON TERMINATION FOR DEATH OR DISABILITY. If Executive's employment hereunder is terminated by reason of his death or total disability, the Company shall:

(a) Pay Executive (or his estate) or beneficiaries any Base Salary which has accrued but not been paid as of the termination date (the "Accrued Base Salary");

(b) Pay Executive (or his estate) or beneficiaries for unused vacation days accrued as of the termination date in an amount equal to his Base Salary multiplied by a fraction the numerator of which is the number of accrued unused vacation days and the denominator of which is 360 (the "Accrued Vacation Payment");



(c) Reimburse Executive (or his estate) or beneficiaries for expenses incurred by him prior to the date of termination which are subject to reimbursement pursuant to this Agreement (the "Accrued Reimbursable Expenses");

(d) Provide to Executive (or his estate) or beneficiaries any accrued and vested benefit required to be provided by the terms of any Company-sponsored benefit plans or programs (the "Accrued Benefits"), together with any benefits required to be paid or provided in the event of Executive's death or total disability under applicable law;

(e) Pay Executive (or his estate) or beneficiaries any Annual Incentive Bonus with respect to a prior fiscal year which has accrued but has not been paid, plus a portion of the Annual Incentive Bonus for the year in which Executive's employment is terminated hereunder computed at the end of the fiscal year and pro rated to reflect the portion of the fiscal year that Executive was employed by the Company (collectively, the "Accrued Annual Incentive Bonus"); and in addition,

(f) Executive (or his estate) or beneficiaries shall have the right to exercise all vested unexercised stock options and warrants outstanding at the termination date in accordance with terms of the plans and agreements pursuant to which such options or warrants were issued.

4.2 UPON TERMINATION BY COMPANY FOR CAUSE OR BY EXECUTIVE OTHER THAN FOR GOOD REASON. If Executive's employment is terminated by the Company for Cause, or if Executive terminates his employment with the Company other than (x) upon Executive's death or total disability, (y) for good reason, or (z) pursuant to a Change In Control Resignation (as defined in Section 3.2(b), the Company shall:

(a) Pay Executive the Accrued Base Salary;

(b) Pay Executive the Accrued Vacation Payment;

(c) Pay Executive the Accrued Reimbursable Expenses;

(d) Pay Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) Pay Executive any Annual Incentive Bonus with respect to a prior fiscal year which has accrued but has not been paid; and in addition

(f) Executive shall have the right to exercise vested options and warrants in accordance with Section 4.1(f).



4.3 UPON TERMINATION BY THE COMPANY WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON OR PURSUANT TO A CHANGE IN CONTROL RESIGNATION. If Executive's employment is terminated (i) by the Company Without Cause, or (ii) by Executive for Good Reason, or (iii) pursuant to a Change in Control Resignation, the Company shall:

(a) Pay Executive the Accrued Base Salary;

(b) Pay Executive the Accrued Vacation Payment;

(c) Pay Executive the Accrued Reimbursable Expenses;

(d) Pay Executive the Accrued Benefits, together with any benefits required to be paid or provided under applicable law;

(e) Pay Executive the Accrued Annual Incentive Bonus;

(f) Pay Executive commencing on the thirtieth (30th) day following the termination date twelve (12) monthly payments equal to one-twelfth (1/12th) of Executive's Base Salary in effect immediately prior to the time such termination occurs;

(g) Maintain in full force and effect, for Executive's and his eligible beneficiaries' continued benefit, until the first to occur of (x) his attainment of alternative employment or (y) twelve (12) months following the termination date of his employment hereunder the employee benefits provided pursuant to Company-sponsored benefit plans, programs or other arrangements in which Executive was entitled to participate as a full-time employee immediately prior to such termination in accordance with Section 2.4 hereof, subject to the terms and conditions of such plans and programs (the "Continued Benefits"). If Executive's continued participation is not permitted under the general terms and provisions of such plans, programs and arrangements, the Company shall arrange to provide Executive with Continued Benefits substantially similar to those which Executive would have been entitled to receive under such plans, programs and arrangements; and in addition

(h) Executive shall have the right to exercise all vested unexercised stock options and warrants in accordance with Section 4.1(f).



## ARTICLE V

## RESTRICTIVE COVENANTS

5.1 CONFIDENTIALITY.

(a) Executive covenants and agrees to hold in strictest confidence, and not disclose to any person without the express written consent of the Company, any and all of the Company's proprietary information, as defined in Subparagraph (c) below, except as such disclosure may be required in connection with his employment hereunder. This covenant and agreement shall survive this Agreement and continue to be binding upon Executive after the expiration or termination of this Agreement, whether by passage of time or otherwise, so long as such information and data shall remain proprietary information.

(b) Upon expiration or termination of this Agreement for any reason, Executive shall immediately turnover to the Company any "Proprietary Information." Executive shall have no right to retain any copies of any material qualifying as Proprietary Information for any reason whatsoever after expiration or termination of his employment hereunder without the express written consent of the Company.

(c) For purposes of this Agreement, "Proprietary Information" means and includes the following: the identity of clients or customers or potential clients or customers of the Company or its affiliates; any written, typed or printed lists, or other materials identifying the clients or customers of the Company or its affiliates; Research & Development programs, plans and discoveries; product development, marketing, and plans; any business plans or strategic contracts, partnerships or alliances; any financial or other information supplied by clients or customers of the Company or its affiliates; any and all data or information involving the Company, its affiliates, programs, methods or contacts employed by the Company or its affiliates in the conduct of their business; any lists, documents, manuals, records, forms or other materials used by the Company or its affiliates in the conduct of their business; any descriptive materials describing the methods and procedures employed by the Company or its affiliates in the conduct of their business; and any other secret or confidential information concerning the Company's or its affiliates' business or affairs. The terms "list," "document" or their equivalents, as used in this Subparagraph (c), are not limited to a physical writing or compilation but also include any and all information whatsoever regarding the subject matter of the "list" or "documents," whether or not such compilation has been reduced to writing. "Proprietary Information" shall not include any information which: (i) is or becomes publicly available through no act or failure of Executive; (ii) was or is rightfully learned by Executive from a source other than the Company before being received from the Company; or (iii) becomes independently available to Executive as a matter of right from

a third party. If only a portion of the Proprietary Information is or becomes publicly available, then only than portion shall not be Proprietary Information hereunder.

(d) Executive acknowledges that he is the Chairman of the Board of the Company and in such capacity he will be a representative of the Company with respect to clients and potential clients of the Company. Executive also acknowledges that he has had and will continue to have access to confidential information about the Company, its affiliates, and their clients and that "Proprietary Information" acquired by him at the expense of the Company is for use in its business. Executive has substantial experience in the management of entrepreneurial companies and possesses special, unique, extraordinary skills and knowledge in this field. Executive's management and financial services to the Company are special, unique and extraordinary and the success or failure of the Company is dependent upon his discharge of his duties and obligations. Accordingly, by execution of this Agreement, and subject to Subparagraph (c) hereof, Executive agrees that during his employment with the Company and for a period of Two (2) years immediately after termination of his employment with the Company (the "Non-Competition Period"), he shall not violate the provisions of Section 5.2.

5.2 COMPETITION.

(a) During the Non-Competition Period specified in Section 5.1(d), Executive shall not:

(i) Except as a passive investor in publicly-held companies, and except for investments held as of the date hereof, directly or indirectly own, operate, mange, consult with, control, participate in the management or control of, be employed by, maintain or continue any interest whatsoever in any company that directly competes with the Company or any parent corporation, subsidiary corporation, or affiliated entity or company (hereinafter referred to as an "Affiliate") in the United States; or

(ii) Directly or indirectly solicit any business of a nature that is directly competitive with the business of the Company or an Affiliate from any individual or entity that obtained such products or services from the Company or its Affiliates at any time during his employment with the Company; or

(iii) Directly or indirectly solicit any business of a nature that is directly competitive with the business of the Company or an Affiliate from any individual or entity solicited by him on behalf of the Company or its Affiliates; or

(iv) Employ, or directly or indirectly solicit, or cause the solicitation of, any employees of the Company or its Affiliates who are in the employ of the Company or its Affiliates on the termination date of his employment hereunder for employment by others.



(b) Executive expressly agrees and acknowledges that:

(i) The Company and its Affiliates have protected business interests throughout North America, Europe, and Asia and that competition with and against such business interests would be harmful to the Company and/or its Affiliates;

(ii) This covenant not to compete is reasonable as to time and geographical area and does not place any unreasonable burden upon him;

(iii) The general public will not be harmed as a result of enforcement of this covenant not to compete;

(iv) He has had the opportunity to review this covenant not to compete with his own independent legal counsel; and

(v) He understands and hereby agrees to each and every term and condition of to this covenant not to compete (including, without limitation, the provisions of Section 5.4).

5.3 NON-DISPARAGEMENT. During the term of this Agreement and the Non-Competition Period, neither Executive nor the Company shall disparage the other, and neither shall disclose to any third party the conditions of Executive's employment with the Company except as may be required (i) pursuant to applicable law or regulations, including the rules and regulations of the Securities and Exchange Commission, (ii) to effectuate the provisions of employee plans or programs and insurance policies, or (iii) as may be otherwise contemplated herein or unless such information becomes

publicly available without fault of the party making such disclosure.

5.4 REMEDIES. Executive expressly agrees and acknowledges that this covenant not to compete is necessary for the protection of the Company and its affiliates because of the nature and scope of their business and his position with the Company. Further, Executive acknowledges that any breach of this covenant not to compete would result in irreparable damage to the Company, and in the event of his breach of this covenant not to compete, money damages will not sufficiently compensate the Company for its injury caused thereby, and that the remedy at law for any breach or threatened breach of Sections 5.1, 5.2 and 5.3 will be inadequate and, accordingly agrees, that the Company shall, in addition to all other available remedies (including without limitation, seeking such damages as it can show it has sustained by reason of such breach), be entitled to injunctive relief or specific performance and that in addition to such money damages he may be restrained and enjoined from any continuing breach of this covenant not to compete without any bond or other security being required of any court. Executive further acknowledges and agrees that if the covenant not to compete herein is deemed to be unenforceable and/or the Executive fails to comply with this Article V, the Company



has no obligation to provide any compensation or other benefits described in Article IV hereof.

5.5 OWNERSHIP OF INVENTIONS.

(a) During the employment by the Company, Executive will have access to trade secrets, data, know-how, knowledge or other confidential information originated in the Company or disclosed to the Company by others under agreements to hold the same confidential (collectively referred to as "Confidential Information"). Executive acknowledges that Confidential Information includes any information not readily available to the public, and includes not only technical information but also business information. In addition, Executive may, during the period of employment, create, make, develop or conceive inventions, discoveries, concepts, ideas, designs, works of authorship, developments, information, improvements, or trade secrets, whether patentable or not, and whether solely or jointly with others, which may or may not also constitute Confidential Information (collectively referred to as "Inventions"). Executive agrees that all works of authorship to which Executive contributes shall be considered "works made for hire" and shall be the sole property of the Company.

(b) Executive agrees that Executive will neither utilize any Confidential Information for Executive's own benefit or for the benefit of anyone except the Company, nor disclose, disseminate, lecture upon or publish articles about any Confidential Information to any one outside the Company, or to any officer or employee of the Company not also having access to Confidential Information, at any time either during or after employment by the Company.

(c) Executive agrees to disclose promptly, in writing to Executive's Supervisor, Company's Counsel and Chief Executive Officer, any Inventions that Executive may make, develop or conceive, solely or jointly, during the period of employment by the Company, or by its predecessors, successors in business, subsidiaries, parents or affiliates. All such Inventions shall be and remain the property of the Company. Executive hereby assigns to the Company all Executive's rights, titles and interests in and to any such Inventions, whether or not such Inventions may be reduced to practice during the period of Executive's employment, and to execute all patent or copyright applications, assignments and other documents, and to take all other steps necessary, to vest in the Company the entire right, title and interest in and to those Inventions and in and to any patents or copyrights obtainable therefor in the United States and in foreign countries, all at the Company's expense, but for no consideration to Executive in addition to Executive's salary or wages. Executive agrees to keep adequate records of all Inventions and make such records available to the Company.

(d) If the Company chooses to prosecute applications for patents or copyrights for any such Inventions, the Company shall assume the entire expense of preparing, filing and prosecuting such applications, through counsel appointed



by the Company; provided, however, that the Company is under no obligation to prosecute such applications. Executive agrees to cooperate with the Company and do whatever is necessary or appropriate to obtain patents, copyrights or other legal protections for Inventions. If Executive is incapacitated or refuses to so cooperate for any reason, Executive hereby authorizes the Company to act as Executive's agent and to take whatever actions, or execute whatever documents, may be needed to carry out this Agreement.

(e) All records and other material pertaining to Confidential Information, whether developed by Executive or others, shall be and remain the property of the Company. Upon termination of Executive's employment with the Company, all documents, records, notebooks and other material of any kind pertaining to or containing Confidential Information then in Executive's possession, or under Executive's control, whether prepared by Executive or others, will be returned to the Company unconditionally.

(f) Executive shall not be obligated to assign any Invention which relates to or would be useful in any business or activities in which the Company is engaged if such Invention was conceived and reduced to practice by Executive prior to Executive's employment with the Company, provided that all such Inventions are listed at the time of employment on the attached Exhibit "B." If no entry is made on Exhibit "B," then such entry shall be deemed to be "none," whether or not Exhibit "B" is signed by Executive. Except as listed on Exhibit "B," Executive will not assert any rights to any Inventions, as having been made or acquired by Executive prior to being employed by the Company.

(g) Executive shall not be obligated to assign any Invention which may be wholly conceived by Executive after Executive leaves the employ of the Company, except that Executive is so obligated if such Invention shall involve the utilization of Confidential Information of the Company.

(h) Notwithstanding anything in this Agreement to the contrary, Executive shall not be obligated to assign to the Company and of Executive's rights in an Invention that the Executive developed entirely on Executive's own time without using the Company's equipment, supplies, facilities or Confidential Information, except for those Inventions that either: (i) relate, at the time of conception or reduction to practice of Invention, to either the Company's business, or actual or demonstrably anticipated research or development of the Company, or (ii) result from any work performed by the Executive for the Company. THIS AGREEMENT DOES NOT APPLY TO ANY INVENTION WHICH QUALIFIES FULLY UNDER THE PROVISIONS OF CALIFORNIA LABOR CODE SECTION 2870 OR ANY OTHER SUBSTANTIALLY EQUIVALENT LAW IN THE STATE IN WHICH THE EXECUTIVE IS EMPLOYED. With regard to those Inventions which Executive is not obligated to assign to the Company, Executive shall give the Company a right of first refusal on any and all such Inventions and the right to meet any firm offer of another for



such Inventions. The Company must exercise such right of first refusal within thirty (30) days of receipt of written notice from Executive setting forth such offer.

## ARTICLE VI

## MISCELLANEOUS

6.1 DEFINITIONS. For purposes of this Agreement, the following terms shall have the following ---------- meanings:

(a) "Accrued Annual Incentive Bonus" - as defined in Section 4.1(e);

(b) "Accrued Base Salary" - as defined in Section 4.1(a);

(c) "Accrued Benefits" - as defined in Section 4.1(d);

(d) "Accrued Reimbursable Expenses" - as defined in Section 4.1(c); (e) "Annual Vacation Payment" - as defined in Section 4.1(b);

(f) "Annual Incentive Bonus" - as defined in Section 2.2(b)

(g) "Base Amount" - as defined in Section 4.4(b);

(h) "Base Salary" - as defined in Section 2.1;

(j) "Board" - shall mean the Board of Directors of the Company;

(k) "Cause" shall mean the occurrence of any of the following:

(i) Executive's gross and willful misconduct which is injurious to the Company;

(ii) Executive's engaging in fraudulent conduct with respect to the Company's business or in conduct of a criminal nature that may have an adverse impact on the Company's standing and reputation;

(iii) The continued and unjustified failure or refusal by Executive to perform the duties required of him by this Agreement which failure or refusal shall not be cured within fifteen (15) days following (a)

receipt of Executive of



written notice from the Board specifying the factors or events constituting such failure or refusal, and (b) a reasonable opportunity for Executive to correct such deficiencies;

(iv) Executive's use of drugs and/or alcohol in violation of then current Company policy; or

(v) Executive's breach of his obligation under Section 1.2(c) hereof which shall not be cured within fifteen (15) days after written notice thereof to Executive.

(l) "Change In Control" shall mean and shall be deemed to have occurred if:

(i) After the date of this Agreement, any "person" (as such term is used in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision thereto) shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act or any successor provision thereof) directly or indirectly of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company's then outstanding securities ordinarily having the right to vote at an election of directors; provided, however, that, for purposes of this Subparagraph, "person" shall exclude the Company, its subsidiaries, any person acquiring such securities directly from the Company, any employee benefit plan sponsored by the Company or from Executive or any stockholder owning fifteen percent (15%) or more of the combined voting power of the Company's outstanding securities as of the date of this Agreement; or

(ii) Any stockholder of the Company owning fifteen percent or more of the combined voting power of the Company's outstanding securities as of the date of this Agreement shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Company (other than through the acquisition of securities directly from the Company or from Executive) representing thirty-three and one-third percent (33-1/3%) or more of the combined voting power of the Company's then outstanding securities ordinarily having the right to vote at an election of directors; or

(iii) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least eighty percent (80%) of the Board; provided, however, that any person becoming a member of the Board subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least eighty percent (80%) of the members then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act



or any successor provision thereto) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iv) Approval by the stockholders of the Company and consummation of (a) a reorganization, merger, consolidation, or sale or other disposition of all or substantially all of the assets of the Company, in each case, with or to a corporation or other person or entity of which persons who were the stockholders of the Company immediately prior to such transaction do not, immediately thereafter, own more than sixty percent (60%) of the combined voting power of the outstanding voting securities entitled to vote generally in the election of directors of the reorganized, merged, consolidated or purchasing corporation (or, in the case of a non-corporate person or entity) were not members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger, consolidation or sale, or (b) a liquidation or dissolution of the Company.

(m) "Change In Control Resignation" - as defined in Section 3.2(b);

(n) "Continued Benefits" - as defined in Section 4.3(g);

(o) "Expiration" shall mean the expiration of Executive's employment hereunder in accordance with Section 1.3;

(p) "Good Reason" shall mean the occurrence of any of the following:

(i) The Company's failure to elect or reelect or to appoint or reappoint Executive to offices, titles or positions carrying comparable authority, responsibilities, dignity and importance to that of Executive's

offices and positions as of April 1, 1999;

(ii) Material change by the Company in Executive's function, duties or responsibilities (including reporting responsibilities) which would cause Executive's position with the Company to become of less dignity, responsibility and importance than those associated with his functions, duties or responsibilities as of April 1, 1999; or

(iii) Other material breach of this Agreement by the Company, which breach is not cured within fifteen (15) days after written notice thereof is received by the Company.

(q) "Non-Competition Period" - as defined in Section 5.1(d);

(r) "Notice of Termination" shall mean a notice which shall indicate the specific termination provision of this Agreement relied upon and shall set



forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provisions so indicated. Each Notice of Termination shall be delivered at least sixty (60) days prior to the effective date of termination;

(s) "Proprietary Information" - as defined in Section 5.1(c);

(t) "Retirement" shall mean normal retirement at age as determined by the Board;

(u) "Senior Executives" shall mean the chief executive officer and the four (4) most highly compensated executive officers of the Company determined in accordance with the rules and regulations of the Securities and Exchange Commission under the Exchange Act;

(v) "Termination" shall mean the termination of Executive's employment hereunder other than upon expiration of the term of such employment in accordance with Section 1.3;

(w) "Total Disability" shall mean Executive's failure substantially to perform his duties hereunder on a full-time basis for a period exceeding one hundred eighty (180) consecutive days or for periods aggregating more than 180 days during any twelve-month period as a result of incapacity due to physical or mental illness. If there is a dispute as to whether Executive is or was physically or mentally unable to perform his duties under this Agreement, such dispute shall be submitted for resolution to a licensed physician agreed upon by the Board and Executive, or if an agreement cannot be promptly reached, the Board and Executive each shall promptly select a physician, and if these physicians cannot agree, the physicians shall promptly select a third physician whose decision shall be binding on all parties. If such a dispute arises, Executive shall submit to such examinations and shall provide such information as such physician(s) may request, and the determination of the physician(s) as to Executive's physical or mental condition shall be binding and conclusive. Notwithstanding the foregoing, if Executive participates in any group disability plan provided by the Company which offers long-term disability benefits, "Total Disability" shall mean total disability as defined therein.

6.2 KEY MAN INSURANCE. The Company shall have the right, in its sole discretion, to purchase "key man" insurance on the life of Executive. The Company shall be the owner and beneficiary of any such policy. If the Company elects to purchase a policy, Executive shall take such physical examinations and supply such information as may be reasonably requested by the insurer.

6.3 MITIGATION OF DAMAGES; NO SET-OFF; DISPUTE RESOLUTION.

(a) Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise,



nor shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after the date of termination of his employment hereunder or otherwise. The Company's obligation to make the payments provided for in this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim or action which the Company may have against Executive.

(b) If there shall be any dispute between the Company and Executive (i) in the event of any termination of Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by Executive, whether Good Reason existed, or (iii) otherwise, the dispute shall be resolved in accordance with the dispute

resolution procedures set forth in Exhibit "A" hereto, the provisions of which are incorporated as a part hereof, and the parties hereto hereby agree that such dispute resolution procedures shall be the exclusive method for resolution of disputes under this Agreement. In the event of a dispute hereunder as to whether a termination by the Company was for Cause or by the Executive for Good Reason, until there is a resolution and award as provided in Exhibit "A," the Company shall pay all amounts, and provide all benefits, to Executive and/or Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide hereunder as though such termination were by the Company without Cause or by Executive for Good Reason and shall pay the reasonable legal fees and expenses of counsel for Executive in connection with such dispute resolution; provided, however, that the Company shall not be required to pay any disputed amounts or any legal fees and expenses pursuant to this Subparagraph (b) except upon receipt of a written undertaking by or on behalf of Executive (and/or Executive's family or other beneficiaries, as the case may be) to repay, without interest or penalty, as soon as practicable after completion of the dispute resolution (A) all such amounts to which Executive (or Executive's family or other beneficiaries, as the case may be) is ultimately adjudged to not be entitled with respect to the payment of such disputed amount(s) and (B) in addition, in the case of legal fees and expenses, a proportionate amount of legal fees and expenses attributable to any of Executive's claim(s) or any of Executive's defenses or counter-claim(s), if any, which shall have been found by the dispute resolver to have been frivolous or without merit.

6.4 SUCCESSORS; BINDING AGREEMENT. This Agreement shall be binding upon any successor to the Company and shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, beneficiaries, designees, executors, administrators, heirs, distributees, devisees and legatees.

6.5 MODIFICATION; NO WAIVER. This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument by the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such



waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any other term or condition.

6.6 SEVERABILITY. The covenants and agreements contained herein are separate and severable and the invalidity or unenforceability of any one or more of such covenants or agreements, if not material to the employment arrangement that is the basis for this Agreement, shall not affect the validity or enforceability of any other covenant or agreement contained herein. If, in any judicial proceeding, a court shall refuse to enforce one or more of the covenants or agreements contained herein because the duration thereof is too long, or the scope thereof is too broad, it is deemed reduced to the extent necessary to permit the enforcement of such covenants or agreements.

6.7 NOTICES. All the notices and other communications required or permitted hereunder shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, to the parties hereto at the following addresses:

If to the Company, to it at:

Bishop Equities, Inc. dba Aethlon Medical
7825 Fay Avenue
Suite 200
La Jolla, California 92037

If Executive, to him at:

Mr. James A. Joyce.
7825 Fay Avenue
Suite 200
La Jolla, California 92037

6.8 ASSIGNMENT. This Agreement and any rights hereunder shall not be assignable by either party without the prior written consent of the other party except as otherwise specifically provided for herein.

6.9 ENTIRE UNDERSTANDING. This Agreement (together with the Exhibit incorporated as a part hereof) constitutes the entire understanding between the parties hereto and no agreement, representation, warranty or covenant has been made by either party except as expressly set forth herein.

6.10 EXECUTIVE'S REPRESENTATIONS. Executive represents and warrants that neither the execution and delivery of this Agreement nor the performance of his duties hereunder violates the provisions of any other agreement to which he is a party or by which he is bound.



6.11 LIABILITY OF COMPANY WITH RESPECT TO INSURANCE POLICY. Executive has selected the insurer and policy referred to in Section 2.4(a) hereof, and the Company shall not have any liability to Executive (or his beneficiaries) should the insurance company which issues the policy referred to therein fail or refuse to pay (whether voluntarily or by reason of any order, injunction or otherwise) thereunder or if any rights or elections otherwise available to Executive thereunder are restricted or eliminated.

6.12 GOVERNING LAW. This Agreement shall be construed in accordance with and governed for all purposes by the laws of the State of California applicable to contracts executed and wholly performed within such state.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

COMPANY

BISHOP EQUITIES, INC.,
a Nevada corporation dba Aethlon Medical

By:
---
Franklyn S. Barry, Jr.

Its: President and C.E.O.

EXECUTIVE

JAMES A. JOYCE

By:
---
James A. Joyce



EXHIBIT "A"

DISPUTE RESOLUTION PROCEDURES

A. If a controversy should arise which is covered by Section 6.3 of Article VI, then not later than twelve (12) months from the date of the event which is the subject of dispute either party may serve on the other a written notice specifying the existence of such controversy and setting forth in reasonably specific detail the grounds thereof ("Notice of Controversy"); PROVIDED THAT, in any event, the other party shall have at least thirty (30) days from and after the date of the Notice of Controversy to serve a written notice of any counterclaim ("Notice of Counterclaim"). The Notice of Counterclaim shall specify the claim or claims in reasonably specific detail. If the Notice of Controversy or the Notice of Counterclaim, as the case may be, is not served within the applicable period, the claim set forth therein will be deemed to have been waived, abandoned and rendered unenforceable.

B. Following receipt of the Notice of Controversy (or the Notice of Counterclaim, as the case may be), there shall be a three (3) week period during which the parties will make a good faith effort to resolve the dispute through negotiation ("Period of Negotiation"). Neither party shall take any action during the Period of Negotiation to initiate arbitration proceedings.

C. If the parties should agree during the Period of Negotiation to mediate the dispute, then the Period of Negotiation shall be extended by an amount of time to be agreed upon by the parties to permit such mediation. In no event, however, may the Period of Negotiation be extended by more than five (5) weeks or, stated differently, in no event may the Period of Negotiation be extended to encompass more than a total of eight (8) weeks.

D. If the parties agree to mediate the dispute but are thereafter unable to agree within one (1) week on the format and procedures for the mediation, then the effort to mediate shall cease, and the Period of

Negotiation shall terminate four (4) weeks from the Notice of Controversy (or the Notice of Counterclaim, as the case may be).

E. Following the termination of the Period of Negotiation, the dispute (including the main claim and counterclaim, if any) shall be settled by arbitration, and judgment upon the award may be entered in any court having jurisdiction thereof. The format and procedures of the arbitration are set forth below (referred to below as the "Arbitration Agreement").

F. A notice of intention to arbitrate ("Notice of Arbitration") shall be served within forty-five (45) days of the termination of the Period of Negotiation. If the Notice of Arbitration is not served within this period, the claim set forth in the Notice of



Controversy (or the Notice of Counterclaim, as the case may be) will be deemed to have been waived, abandoned and rendered unenforceable.

G. The arbitration, including the Notice of Arbitration, will be governed by the Commercial Rules of the American Arbitration Association except that the terms of this Arbitration Agreement shall control in the event of any difference or conflict between such Rules and the terms of this Arbitration Agreement. The arbitration shall be scheduled to take place in San Diego, California.

H. The dispute resolver shall reach a decision on the merits on the basis of applicable legal principles as embodied in the law of the State of California.

I. There shall be one dispute resolver, regardless of the amount in controversy. The dispute resolver will be empowered to render an award and interim decisions and shall be a member of the bar of any of the fifty States of the United States or of the District of Columbia. The dispute resolver shall be promptly appointed pursuant to Rule 13 of the Commercial Rules of the American Arbitration Association ("AAA"). If the dispute resolver has not been appointed within forty-five (45) days of the AAA's initial transmission of lists of potential arbitrators, then the AAA shall unilaterally designate the dispute resolver.

J. At the time of appointment and as a condition thereto, the dispute resolver will be apprised of the time limitations and other provisions of this Arbitration Agreement and shall indicate such dispute resolver's agreement to the Tribunal Administrator to comply with such provisions and time limitations.

K. During the 30-day period following appointment of the dispute resolver, either party may serve on the other a request for limited numbers of documents directly related to the dispute. Such documents will be produced within seven (7) days of the request.

L. Following the 30-day period of document production, there will be a forty-five (45) day period during which limited depositions will be permissible. Neither party will take more than five (5) depositions, and no deposition will exceed three (3) hours of direct testimony.

M. Disputes as to discovery or prehearing matters of a procedural nature shall be promptly submitted to the dispute resolver pursuant to telephone conference call or otherwise. The dispute resolver shall make every effort to render a ruling on such interim matters at the time of the hearing (or conference call) or within five (5) business days thereafter.

N. Following the period of depositions, the arbitration hearing shall promptly commence. The dispute resolver will make every effort to commence the



hearing within thirty (30) days of the conclusion of the deposition period and, in addition, will make every effort to conduct the hearing on consecutive business days to conclusion.

O. An award will be rendered, at the latest, within nine (9) months of the date of the Notice of Arbitration and within thirty (30) days of the close of the arbitration hearing. The award shall set forth the grounds for the decision in reasonably specific detail and shall also specify whether any claim (or defense or counterclaim) of Executive is found to be frivolous or without merit and what proportion, if any, of his legal fees and expenses which have been paid by the Company Executive shall be required to repay to the Company in accordance with Section 6.3(b). The award shall be final and nonappealable.

P. THE PARTIES HEREBY ACKNOWLEDGE AND AGREE THAT THEY ARE WAIVING THEIR RIGHTS TO A TRIAL IN A STATE OR FEDERAL COURT AND ARE ALSO WAIVING THEIR RIGHT TO A JURY TRIAL.

| COMPANY | EXECUTIVE |
| --- | --- |
| BISHOP EQUITIES, INC., a Nevada corporation dba Aethlon Medical | JAMES A. JOYCE |

By: ----------
Franklyn S. Barry, Jr.

Its: President and C.E.O.

By: ----------
James A. Joyce



EXHIBIT "B"

LIST OF INVENTIONS
CREATED PRIOR TO EMPLOYMENT WITH THE COMPANY

INDEPENDENT ACCOUNTANTS' CONSENT

We hereby consent to the use in this filing on Form 10-KSB (File No. 0-21846) of our report, dated June 18, 1999, relating to the consolidated financial statements of Bishop Equities, Inc. (d/b/a Aethlon Medical, Inc.) and subsidiaries (A Development Stage Enterprise).

FREED MAXICK SACHS & MURPHY, PC

Buffalo, New York
July 15, 1999

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