HOLLIS EDEN PHARMACEUTICALS INC /DE/
Form DEF 14A
April 25, 2008

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
þ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Hollis-Eden Pharmaceuticals, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box)

þ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

HOLLIS-EDEN PHARMACEUTICALS, INC.

4435 Eastgate Mall, Suite 400

San Diego, California 92121

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON JUNE 9, 2008

TO THE STOCKHOLDERS OF HOLLIS-EDEN PHARMACEUTICALS, INC.:

Notice Is Hereby Given that the Annual Meeting of Stockholders of **Hollis-Eden Pharmaceuticals, Inc.**, a Delaware corporation (the Company), will be held on Monday, June 9, 2008 at 10:00 a.m. local time at the Parc 55 Hotel, 55 Cyril Magnin Street, San Francisco, California 94102, for the following purposes:

1. To elect one Class II director to hold office until the 2011 Annual Meeting of Stockholders.

2. To amend the Company s 2005 Equity Incentive Plan, as amended, to increase the aggregate number of shares of common stock authorized for issuance under such plan by 800,000 shares.

3. To amend the Company s 2005 Non-Employee Directors Equity Incentive Plan, as amended, to increase the aggregate number of shares of common stock authorized for issuance under such plan by 150,000 shares.

4. To ratify the selection by the audit committee of the board of directors of BDO Seidman, LLP as the independent registered public accounting firm of the Company for its fiscal year ending December 31, 2008.

5. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The board of directors has fixed the close of business on April 11, 2008 as the record date for the determination of stockholders entitled to notice of and to vote at this annual meeting and at any adjournment or postponement thereof.

By Order of the Board of Directors

Richard B. Hollis

Chairman of the Board, President and Chief Executive Officer

San Diego, California

April 25, 2008

ALL STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING. A RETURN ENVELOPE (WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES) IS ENCLOSED FOR THAT

PURPOSE. EVEN IF YOU HAVE GIVEN YOUR PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE ANNUAL MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE ANNUAL MEETING, YOU MUST OBTAIN FROM THE RECORD HOLDER A PROXY ISSUED IN YOUR NAME.

HOLLIS-EDEN PHARMACEUTICALS, INC.

4435 Eastgate Mall, Suite 400

San Diego, California 92121

PROXY STATEMENT

FOR THE 2008 ANNUAL MEETING OF STOCKHOLDERS

June 9, 2008

QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING

Why am I receiving these materials?

We sent you this proxy statement and the enclosed proxy card because the board of directors of Hollis-Eden Pharmaceuticals, Inc. (sometimes referred to in this proxy statement as we , us , the Company or Hollis-Eden) is soliciting your proxy to vote at the 2008 annual meeting of stockholders. You are invited to attend the annual meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the annual meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card.

We intend to begin mailing this proxy statement and accompanying proxy card on or about May 9, 2008 to all stockholders of record entitled to vote at the annual meeting.

Who can vote at the annual meeting?

Only stockholders of record at the close of business on April 11, 2008 will be entitled to vote at the annual meeting. On this record date, there were 29,042,605 shares of our common stock outstanding and entitled to vote.

Stockholder of Record: Shares Registered in Your Name

If on April 11, 2008 your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, then you are a stockholder of record. As a stockholder of record, you may vote in person at the annual meeting or vote by proxy. Whether or not you plan to attend the annual meeting, we urge you to fill out and return the enclosed proxy card to ensure your vote is counted.

Beneficial Owner: Shares Registered in the Name of a Broker or Bank

If on April 11, 2008 your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

What am I voting on?

There are four matters scheduled for a vote:

- Election of one Class II director to hold office until the 2011 annual meeting of stockholders;

- Approval of the proposed amendment to our 2005 Equity Incentive Plan, as amended, to increase the aggregate number of shares of common stock authorized for issuance under such plan by 800,000 shares;

Approval of the proposed amendment to our 2005 Directors Equity Incentive Plan, as amended, to increase the aggregate number of shares of common stock authorized for issuance under such plan by 150,000 shares; and

Ratification of the selection of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008.

How do I vote?

You may either vote For all the nominees to our board of directors or you may withhold your vote for any nominee you specify. For each of the other matters to be voted on, you may vote For or Against or abstain from voting. The procedures for voting are fairly simple:

Stockholder of Record: Shares Registered in Your Name

If you are a stockholder of record, you may vote in person at the annual meeting or vote by proxy using the enclosed proxy card. Whether or not you plan to attend the annual meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the annual meeting and vote in person if you have already voted by proxy.

To vote in person, come to the annual meeting and we will offer you a ballot when you arrive.

To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

Beneficial Owner: Shares Registered in the Name of Broker or Bank

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Simply complete and mail the proxy card to ensure that your vote is counted. To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

How many votes do I have?

On each matter to be voted upon, you have one vote for each share of common stock you own as of April 11, 2008, the record date for the determination of stockholders entitled to notice of and to vote at the annual meeting and at any adjournment or postponement thereof.

What if I return a proxy card but do not make specific choices?

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted For the election of the nominee for director, For the approval of the proposed amendment to our 2005 Equity Incentive Plan, as amended, to increase the aggregate number of shares of common stock authorized for issuance under such plan by 800,000 shares; For the approval of the proposed amendment to our 2005 Non-Employee Directors Equity Incentive Plan, as amended, to increase the aggregate number of shares of common stock authorized for issuance under such plan by 150,000 shares; and For the ratification of the selection of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008. If any other matter is properly presented at the annual meeting, your proxy (one of the individuals named on your proxy card) will vote your shares using his best judgment.

Who is paying for this proxy solicitation?

We will pay for the entire cost of soliciting proxies. In addition to these mailed proxy materials, our directors and employees may also solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted.

Can I change my vote after submitting my proxy?

Yes. You can revoke your proxy at any time before the final vote at the annual meeting. You may revoke your proxy in any one of three ways:

You may submit another properly completed proxy card with a later date.

You may send a written notice that you are revoking your proxy to our Secretary at 4435 Eastgate Mall, Suite 400, San Diego, California 92121.

You may attend the annual meeting and vote in person. Simply attending the annual meeting will not, by itself, revoke your proxy.

When are stockholder proposals due for next year s annual meeting?

To be considered for inclusion in next year s proxy materials, your proposal must be submitted in writing by January 9, 2009, to our Secretary at 4435 Eastgate Mall, Suite 400, San Diego, California 92121. If you wish to submit a proposal that is not to be included in next year s proxy materials, your proposal generally must be submitted in writing to the same address no later than April 10, 2009 but no earlier than March 11, 2009.

How are votes counted?

Votes will be counted by the inspector of election appointed for the annual meeting, who will separately count For and Withhold votes and, with respect to proposals other than the election of directors because directors are elected by a plurality of votes cast at the annual meeting, Against votes, abstentions and broker non-votes. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner. Abstentions will be counted towards the vote total for each proposal, and will have the same effect as Against votes. Broker non-votes have no effect and will not be counted towards the vote total for any proposal.

If on April 11, 2008 your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

How many votes are needed to approve each proposal?

For the election of directors, the nominee receiving the most For votes (among votes properly cast in person or by proxy) will be elected. Abstentions and broker non-votes will have no effect.

To be approved, Proposal No. 2, the proposed amendment to our 2005 Equity Incentive Plan, as amended, to increase the aggregate number of shares of common stock authorized for issuance under such plan by 800,000 shares, must receive a For vote from the majority of shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote.

To be approved, Proposal No. 3, the proposed amendment to our 2005 Non-Employee Directors Equity Incentive Plan, as amended, to increase the aggregate number of shares of common stock authorized for issuance under such plan by 150,000 shares, must receive a For vote from the majority of shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote.

To be approved, Proposal No. 4, the ratification of the selection of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008, must receive a For vote from the majority of shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have no effect.

What is the quorum requirement?

A quorum of stockholders is necessary to hold a valid annual meeting. A quorum will be present if stockholders holding at least a majority of the outstanding shares are present at the annual meeting in person or represented by proxy. On the record date of April 11, 2008, there were 29,042,605 shares outstanding and entitled to vote.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or nominee) or if you vote in person at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the holders of a majority of the shares present at the meeting in person or represented by proxy may adjourn the meeting to another date.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. Final voting results will be published in our quarterly report on Form 10-Q for the second quarter of 2008.

Proposal 1

Election Of Directors

Our restated certificate of incorporation and bylaws provide that our board of directors shall be divided into three classes, each class consisting, as nearly as possible, of one-third of the total number of directors, with each class having a three-year term. Vacancies on our board may be filled only by persons elected by a majority of the remaining directors. A director elected by our board to fill a vacancy (including a vacancy created by an increase in the size of our board of directors) shall serve for the remainder of the full term of the class of directors in which the vacancy occurred and until such director s successor is elected and qualified. It is our policy to invite nominees for directors to attend the annual meeting. All of our directors attended last year s annual meeting.

Our board of directors is presently composed of six members with one vacancy that will not be filled by vote of our stockholders at the upcoming annual meeting. Brendan R. McDonnell, who is a director in the class of directors whose term of office expires at the upcoming annual meeting, will not stand for re-election to the board of directors at our upcoming annual meeting which will create a vacancy on our board of directors that will not be filled by vote of our stockholders at the upcoming annual meeting. There is one other director in the class whose term of office expires at the upcoming annual meeting. The nominee for election to this class, Thomas C. Merigan, Jr., M.D., is a current member of our board of directors, having been elected by the stockholders. If elected at the annual meeting, Dr. Merigan would serve until the 2011 annual meeting and until his successor is elected and has qualified, or until his earlier death, resignation or removal.

Directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote at the meeting. Proxies cannot be voted for a greater number of persons than the number of nominees named. In the event that any nominee should be unavailable for election as a result of an unexpected occurrence, such shares will be voted for the election of a substitute nominee as our board of directors may propose upon recommendation from our nominating and corporate governance committee.

Set forth below is biographical information for the person nominated, Thomas C. Merigan, Jr., M.D., and each person whose term of office as a director will continue after the annual meeting.

Nominee for Election for a Three-Year Term Expiring at the 2011 Annual Meeting

Thomas C. Merigan, Jr., M.D.

Dr. Merigan, age 74, became a scientific advisor and director of Hollis-Eden in March 1996. Dr. Merigan was George E. and Lucy Becker Professor of Medicine at Stanford University School of Medicine from 1980 to 2004. He continues to hold the chair as an active emeritus professor. Dr. Merigan has also been the Principal Investigator, NIAID Sponsored AIDS Clinical Trials Unit, from 1986 to the present, and has been Director of Stanford University s Center For AIDS Research from 1988 to the present. Dr. Merigan is a member of various medical and honorary societies, has lectured extensively within and outside the United States, and authored numerous books and articles and has chaired and edited symposia relating to infectious diseases, including anti-viral agents, HIV and other retroviruses, and AIDS. From 1990 to the present, Dr. Merigan has been Chairman, Editorial Board of *HIV: Advances in Research and Therapy*. He is also a member of the editorial boards of *Aids Research and Human Retroviruses* (since 1983), *International Journal of Anti-Microbial Agents* (since 1990), and *The Aids Reader* (since 1991), among others. He is a co-recipient of ten patents, which, among other things, relate to synthetic polynucleotides, modification of hepatitis B virus infection, treatment of HIV infection, purified cytomegalovirus protein and composition and treatment for herpes simplex. Dr. Merigan was Chair, Immunology AIDS Advisory Board, Bristol Myers Squibb Corporation from 1989 to 1995 and Chair, Scientific Advisory Board, Sequel Corp. from 1993 to 1996. In 1994, Stanford University School of Medicine honored him with the establishment of the Annual Thomas C. Merigan Jr. Endowed Lectureship in Infectious Diseases, and, in 1996, Dr. Merigan was elected Fellow, American Association for the Advancement of Science. From 1966 to 1992, Dr. Merigan was Head, Division of Infectious Diseases, at Stanford School of Medicine. Dr. Merigan received his B.A. from the University of California at Berkeley and his M.D. from the University of California at San Francisco.

OUR BOARD OF DIRECTORS RECOMMENDS

A VOTE IN FAVOR OF THE NAMED NOMINEE

DIRECTORS CONTINUING IN OFFICE UNTIL THE 2009 ANNUAL MEETING

Richard B. Hollis

Mr. Hollis, age 55, founded Hollis-Eden in August 1994, and currently serves as our Chairman, President and Chief Executive Officer. Mr. Hollis has over 30 years experience in the health care industry, has a proven track record of launching and marketing important new medical products, and a distinguished career of managing the growth and operations of companies in a variety of senior management positions. Mr. Hollis began his career in product sales with Baxter Travenol (today Baxter International), where he specialized in launching and marketing parenteral, enteral and intravenous solutions to hospitals and nursing homes. Mr. Hollis next joined Imed Corporation, a world leader in drug delivery devices in the 1980s, where he rapidly advanced through numerous sales, marketing and managerial positions. When Imed was acquired by Warner Lambert (today part of Pfizer Inc.), Mr. Hollis was one of two Division Managers at Imed. After leaving Warner Lambert, Mr. Hollis joined Genentech, Inc. as Western Business Unit Manager as the Bay Area biotechnology revolution was unfolding. At Genentech, Mr. Hollis was instrumental in the launch of two blockbuster pharmaceutical products Protropin (human growth hormone) and Activase (tissue plasiminogen activator). Following those successful product launches, Mr. Hollis joined Instromedix, a manufacturer of cardiac monitoring devices, as General Manager and Vice President of Marketing and Sales, and subsequently was named Chief Operating Officer of Bioject Medical, a manufacturer of needleless drug delivery devices. In 1994 he acted on his vision of founding a new pharmaceutical company, Hollis-Eden, which he initially self-funded and successfully brought public in 1997. Mr. Hollis received his B.A. in Psychology from San Francisco State University after studying the humanities while attending St. Mary s College.

Salvatore J. Zizza

Mr. Zizza, age 62, has served as a member of our board of directors since March 1997. Mr. Zizza was elected as Lead Independent Director of our board of directors in March 2006. He served as Chairman of our board, President and Treasurer of Initial Acquisition Corp., from 1992 until March 1997, at which time Initial Acquisition Corp. merged with the Company. Mr. Zizza is presently Chairman of Hallmark Electrical Supplies Corp. Mr. Zizza is also Chairman of Bethlehem Advanced Materials. Mr. Zizza was President and Chief Financial Officer of NICO Construction Company, Inc. until 1985, when NICO merged with The LVI Group, Inc. Prior to joining The LVI Group, Inc., Mr. Zizza was an independent financial consultant and had been a lending officer for Chemical Bank. Mr. Zizza s current and former directorships include: The Gabelli Equity Trust (NYSE), The Gabelli Asset Fund, The Gabelli Growth Fund, The Gabelli Convertible and Income Securities Fund, The Gabelli Utility Trust Fund (NYSE), The Gabelli Global Multimedia Trust (NYSE), The Gabelli Equity Series Fund, The Gabelli Dividend and Income Trust, The Gabelli Gold Fund, the Gabelli International Growth Fund, The Gabelli Global Gold Natural Resources, Westwood Funds, Earl Scheib Inc (NASDAQ), Bion Environmental Technology Inc. and St. David s School. Mr. Zizza received a B.S. in Political Science and an M.B.A. from St. John s University.

DIRECTORS CONTINUING IN OFFICE UNTIL THE 2010 ANNUAL MEETING

Jerome M. Hauer

Mr. Hauer, age 56, has served as a member of our board of directors since June 2004. Mr. Hauer has served as chief executive officer at The Hauer Group, a consulting services firm, since March 2006. Mr. Hauer served as senior vice president and co-chair of the homeland security practice of Fleishman-Hillard Government Relations, a government relations service firm, from January 2005 to March 2006. Prior to joining Fleishman-Hillard, Mr. Hauer served as the director of Response to Disaster and Emergencies Institute and assistant professor at the

George Washington University School of Public Health from November 2003 to December 2004. Mr. Hauer served as acting assistant secretary for public health emergency preparedness of the U.S. Department of Health and Human Services, or HHS, from June 2002 to November 2003 and as director of the office of public health preparedness of HHS from May 2002 to June 2002. He also served as managing director of the crisis and consequence management group at Kroll Associates, a risk consulting firm, from October 2000 to February 2002. Mr. Hauer served as the first director of the New York City Mayor s Office of Emergency Management under Mayor Rudolph Giuliani. He also served as the director of Emergency Medical Services and Emergency Management as well as director of the Department of Fire and Buildings for the State of Indiana under Governor Evan Bayh. Mr. Hauer serves on the board of directors of Emergent BioSolutions, Inc., a publicly held pharmaceutical company. Mr. Hauer previously served as a member of the Health Advisory Board of the Johns Hopkins School of Public Health and as a member of the National Academy of Science s Institute of Medicine s Committee to Evaluate the R&D Needs for Improving Clinical Medical Response to Chemical or Biological Terrorism Incidents. Mr. Hauer received an M.H.S. in public health from Johns Hopkins University School of Hygiene and Public Health and a B.A. in Psychology and History from New York University.

Marc R. Sarni

Mr. Sarni, age 49, has served as a member of our board of directors since June 2004. Mr. Sarni is a Managing Director of NEW Holdings, LLC and a Principal at Cornerstone Investment, LLC and Howard Commercial Corp., companies engaged in the investment in, and development, brokerage and property management of, both residential and commercial real estate. Mr. Sarni worked as an investment banker at A.G. Edwards and Sons, Inc. for 17 years, and from 1997 until 2003, Mr. Sarni was the Managing Director responsible for establishing and managing the Healthcare Industry Group within the corporate finance department s Emerging Growth Sector. The Healthcare Industry Group of A.G. Edwards focused primarily on emerging growth medical technology, biotechnology, specialty pharmaceutical and healthcare services companies. Prior to joining A.G. Edwards, Mr. Sarni spent three years working as a Certified Public Accountant at PriceWaterhouse (now PricewaterhouseCoopers LLP). Mr. Sarni currently serves as a member of the Boards of Directors of NEW Holdings, LLC, Cornerstone Investment, LLC, Howard Commercial Corp., and Managers for Ascension Health Ventures, the strategic health venture-investing subsidiary of Ascension Health, the nation s largest Catholic and not-for-profit healthcare system. Mr. Sarni also previously served as a director of Young Innovations, Inc., a publicly held manufacturer and marketer of medical products used primarily in the dental industry and Microtek Medical Holdings, Inc., a publicly held developer of infection and fluid control, safety, and other medical products directed at the healthcare industry Mr. Sarni graduated from the University of Missouri at Columbia with a BSBA degree in Accounting and from the University of Chicago with an M.B.A. in Finance.

Independence of the Board of Directors

As required under The Nasdaq Global Market (Nasdaq) listing standards, a majority of the members of a listed company s board of directors must qualify as independent, as affirmatively determined by the company s board of directors. After review of all relevant transactions and relationships between each director, or any of his or her family members, and us, our senior management and our independent registered public accounting firm, our board affirmatively has determined that Messrs. Sarni, Zizza, Hauer and McDonnell are independent directors within the meaning of the Nasdaq listing standards.

Information Regarding our Board of Directors and its Committees

During 2007, our board of directors held eight meetings. Each board member attended at least 75% of the aggregate number of meetings of our board and of the committees on which he served, held during the period for which he was a director or committee member, respectively.

Our board of directors have documented our corporate governance practices by adopting a number of corporate governance policies and procedures, as well as a Nominating and Corporate Governance Committee Charter and a Business Code of Conduct and Ethics, to assure that our board will have the necessary authority and practices in place to make decisions that are independent of our management. These guidelines are also intended to align the interests of our directors and management with those of our stockholders. These guidelines set forth the practices our board will follow with respect to board composition and selection, board meetings and the involvement of our senior management and Chief Executive Officer, performance evaluation, and board committees and compensation. In March 2006, our board of directors selected Mr. Zizza to serve as Lead Independent Director of our board of directors. The Lead Independent Director s duties include, to the extent appropriate, leading executive sessions of our board s independent directors, assisting our Chief Executive Officer with communications with our stockholders, and facilitating communications between the other members of our board of directors.

As required under the Nasdaq listing standards, our independent directors meet in regularly scheduled executive sessions at which only independent directors are present. Mr. Zizza, as the Lead Independent Director, presides over these executive sessions.

Nominating and Corporate Governance Committee

Our board of directors has adopted a Nominating and Corporate Governance Committee Charter, which can be found on our corporate website at www.holliseden.com. The Nominating and Corporate Governance Committee (Nominating Committee) is composed of two directors who are independent (as independence is currently defined in Rule 4200(a)(15) of the Nasdaq listing standards): Messrs. Zizza and Hauer. The Nominating Committee is responsible for identifying, reviewing and evaluating candidates to serve as our directors (consistent with criteria approved by our board), reviewing and evaluating incumbent directors, recommending to our board candidates for election to our board, assessing the performance of our board, and making recommendations to our board regarding the membership of the committees of our board. During 2007, the Nominating Committee held one meeting.

Our board of directors believes that candidates for director should have certain minimum qualifications, including: personal integrity and ethics; no interests that would materially impair his or her ability to exercise independent judgment and otherwise discharge his or her fiduciary duties; ability to represent all stockholders equally; achievement in one or more fields of business, professional, governmental, scientific or educational endeavor; sound judgment based on management or policy-making experience; general understanding of the major issues facing public companies of a similar size and operational scope as us; and ability to devote adequate time to our board and its committees. However, the Nominating Committee retains the right to modify these qualifications from time to time. Candidates for director nominees are reviewed in the context of the current composition of our board, our operating requirements and the long-term interests of our stockholders. In conducting this assessment, the Nominating Committee considers such factors as it deems appropriate given our current needs and the current needs of our board, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors whose terms of office are set to expire, the Nominating Committee reviews such directors overall service during their term, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair such directors independence. In the case of new director candidates, the Nominating Committee will also determine whether the nominee must be independent for Nasdaq purposes, which determination is based upon applicable Nasdaq listing standards and applicable Securities and Exchange Commission rules and regulations. The Nominating Committee will then compile a list of potential candidates, using its own network of contacts, as well as recommendations from other board members and management. The Nominating Committee may also engage, if appropriate under the circumstances, a professional search firm to assist in identifying qualified candidates. The Nominating Committee will conduct any appropriate or necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of our board. The Nominating Committee will meet to discuss and consider such candidates qualifications and then select nominees for recommendation to our board by majority vote.

The Nominating Committee will consider director candidates recommended by our stockholders. The Nominating Committee will accept for consideration only one recommendation from any stockholder or affiliated group of stockholders. The Nominating Committee will also take into account the size and duration of the recommending stockholder s ownership interest in the Company and the extent to which such stockholder intends to maintain its ownership interest in the Company. Our board of directors does not intend for the Nominating Committee to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether or not the candidate was recommended by a stockholder. Stockholders who wish to recommend individuals for consideration by the Nominating Committee to become nominees for election to our board may do so by delivering a written recommendation to the Nominating Committee at the following address: 4435 Eastgate Mall, Suite 400, San Diego, California 92121, not less than six months prior to any meeting at which directors are to be elected. Submissions must include the full name of the proposed nominee, a description of the proposed nominee s business experience for at least the previous five years, complete biographical information, a description of the proposed nominee s qualifications as a director, and the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected. Any such submission must be accompanied by a representation that the nominating stockholder is a beneficial or record owner of our common stock, including the number of shares and when the shares were acquired, and the extent to which the nominating stockholder intends to maintain its ownership interest in the Company.

Notwithstanding the responsibilities of the Nominating Committee described above, the recommendations for director nominees made by the Nominating Committee will be subject to Delaware law, our bylaws and the provisions of an employment agreement, dated November 1, 1996, between us and Richard B. Hollis, as amended. Pursuant to that agreement, Mr. Hollis has the right, under specified circumstances, to require us to nominate him and two of his designees for election to our board. To date, however, Mr. Hollis has not exercised this right.

Compensation Committee

Our board of directors has adopted a Compensation Committee Charter, a copy of which can be found on our corporate website at *www.holliseden.com*. The Compensation Committee makes recommendations to our board of directors concerning executive salaries and incentive compensation, administers our 2005 Equity Incentive Plan and 2005 Non-Employee Directors Equity Incentive Plan and otherwise determines compensation levels and policies and performs such other functions regarding compensation as our board may delegate. The Compensation Committee also reviews with management the Company s Compensation Discussion and Analysis section of this proxy statement and to consider whether to recommend that it be included in this proxy statement. The Compensation Committee is currently composed of three non-employee directors who are independent (as independence is currently defined in Rule 4200 (a)(15) of the Nasdaq listing standards): Messrs. McDonnell, Sarni and Zizza. During 2007, the Compensation Committee held ten meetings. The Compensation Committee s processes and procedures for determining executive compensation as well as the specific determinations of the Compensation Committee with respect to executive compensation for fiscal 2007 are described in greater detail in the Compensation Discussion and Analysis section of this proxy statement.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis (CD&A) contained in this proxy statement. Based on this review and discussion, the Compensation Committee has recommended to the board of directors that the CD&A be included in this proxy statement and incorporated into our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

The information contained in this report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporates it by reference into any such filing.

Respectfully submitted by:

COMPENSATION COMMITTEE

Brendan R. McDonnell, Chairman

Marc R. Sarni

Salvatore J. Zizza

Compensation Committee Interlocks and Insider Participation

No interlocking relationship existed during 2007 or currently exists between any member of the Compensation Committee and any member of any other company s board of directors or compensation committee.

Audit Committee

The Audit Committee oversees our corporate accounting and financial reporting process. For this purpose, the Audit Committee performs several functions. The Audit Committee evaluates the performance and assesses the qualifications of the independent registered public accounting firm; determines the engagement of the independent registered public accounting firm; determines whether to retain or terminate the existing independent registered public accounting firm or to appoint and engage a new independent registered public accounting firm; reviews and approves the retention of the independent registered public accounting firm to perform any proposed non-permissible audit services; and monitors the rotation of partners of the independent registered public accounting firm on our engagement team as required by law. The Audit Committee is also responsible for the review, approval and monitoring of transactions involving the company and related persons (directors and executive officers or their immediate family members, or stockholders owning five percent or greater of the company s outstanding stock) that meet the minimum threshold for disclosure in the proxy statement under the relevant Securities and Exchange Commission rules and regulations (generally, transactions involving amounts exceeding $120,000 in which a related person has a direct or indirect material interest). The Audit Committee meets and reviews with management and the independent registered public accounting firm: the quarterly financial statements and disclosures prior to the filing of our Quarterly Reports on Form 10-Q; the financial statements and disclosures to be included in our Annual Report on Form 10-K; our policies with respect to risk assessment and risk management; our internal controls; and the results of the annual audit. The Audit Committee is composed of three directors and operates under a written charter adopted by our board of directors. Our board of directors reviews and assesses the adequacy of the Audit Committee s written charter on an annual basis in light of applicable Nasdaq and Securities and Exchange Commission rules and regulations. The current members of the Audit Committee are Messrs. McDonnell, Sarni and Zizza. During 2007, the Audit Committee held five meetings. Our board of directors also annually reviews the definition of independence under the Nasdaq listing standards and Securities and Exchange Commission rules and regulations for Audit Committee members and has determined that all members of our Audit Committee are independent (as independence is currently defined in Rule 4350(d)(2)(A)(i) and (ii) of the Nasdaq listing standards and Section 10A of the Securities Exchange Act of 1934, as amended). Each member of the Audit Committee is financially literate, knowledgeable and qualified to review financial statements. The Audit Committee Financial Expert designated by our board (as that term is defined in the rules and regulations established by the Securities and Exchange Commission) is Mr. Zizza. Our board of directors made a qualitative assessment of Mr. Zizza s level of knowledge and experience based on a number of factors, including his formal education and experience as a chief financial officer.

Report of the Audit Committee of the Board of Directors

Our board of directors maintains an Audit Committee composed of three directors who meet the independence and the financial literacy requirements of the applicable Securities and Exchange Commission rules and regulations. Our board has determined that Mr. Salvatore Zizza qualifies as an Audit Committee Financial Expert and is independent under the applicable Securities and Exchange Commission rules and regulations. Our board has also adopted a written charter of the Audit Committee, which can be found on our corporate website at www.holliseden.com.

Management is responsible for our systems of internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of our financial statements and to attest to management s assessment of internal controls in accordance with the standards of the Public Company Accounting Oversight Board and Section 404 of the Sarbanes Oxley Act of 2002, respectively, and to issue reports thereon. The Audit Committee s responsibility is to monitor and oversee these processes on behalf of our board of directors.

Our independent registered public accounting firm discussed with the Audit Committee the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended by Statement on Auditing Standards No. 89 and 90. Our independent registered public accounting firm also provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent registered public accounting firm that firm s independence.

Based on the Audit Committee s discussion with management and the independent registered public accounting firm as well as the Audit Committee s review of the representation of management and the report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended that our board of directors include the audited financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed with the Securities and Exchange Commission.

The information contained in this report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference in any such filing.

Respectfully submitted by:

AUDIT COMMITTEE

Marc R. Sarni, Chairman

Brendan McDonnell

Salvatore J. Zizza

Stockholder Communications with our Board of Directors

Our board of directors has adopted a formal process by which our stockholders may communicate with our board. Persons interested in communicating with our board their concerns or issues may address correspondence to our board, in care of Hollis-Eden Pharmaceuticals, Inc., at 4435 Eastgate Mall, Suite 400, San Diego, California 92121. All such communications will be compiled by our secretary and submitted to our board on a periodic basis. All communications must be accompanied by the following information:

- A statement as to (i) the number of shares of our common stock that the person holds and (ii) the approximate date on which the person became a stockholder;

- Any special interest, meaning an interest not in the capacity as one of our stockholders, of the person in the subject matter of the communication; and

- The address, telephone number and e-mail address, if any, of the person submitting the communication.

The following types of communications are not appropriate for delivery to directors under these procedures:

- Communications regarding individual grievances or other interests that are personal to the party submitting the communication and would not reasonably be of concern to stockholders generally;
- Communications that advocate Hollis-Eden engaging in illegal, unethical or otherwise improper activities;
- Communications that contain offensive, vulgar or abusive content; and
- Communications that have no rational relevance to our business or operations.

Code of Business Conduct and Ethics

We have adopted the Hollis-Eden Pharmaceuticals Code of Business Conduct and Ethics, which applies to all officers, directors and employees. The Code of Business Conduct and Ethics is available on our website at *www.holliseden.com*. If we make any substantive amendments to the Code of Business Conduct and Ethics or grant any waiver from a provision of the Code to any executive officer or director, we will promptly disclose the nature of the amendment or waiver in a Form 8-K filed with the Securities and Exchange Commission.

Proposal 2

AMENDMENT OF THE 2005 EQUITY INCENTIVE PLAN

On April 27, 2005, our board of directors adopted the Hollis-Eden Pharmaceuticals, Inc. 2005 Equity Incentive Plan (the 2005 Equity Plan). Our stockholders approved the 2005 Equity Plan in June 2005. The 2005 Equity Plan is an amendment and restatement of Hollis-Eden Pharmaceuticals 1997 Incentive Stock Option Plan (the 1997 Option Plan). Options granted under the 1997 Option Plan prior to its amendment and restatement are subject to the terms and conditions as set forth in the agreements evidencing such options and the terms of the 1997 Option Plan except that our board may elect to extend one or more of the features of the 2005 Equity Plan to stock awards granted under the 1997 Option Plan. The approval of the adoption of the 2005 Equity Plan increased the number of shares of our common stock reserved for issuance beyond those reserved for issuance under the 1997 Option Plan by 350,000 shares for a total of 5,500,000 reserved shares. In December 2005, our board amended the 2005 Equity Plan to reserve an additional 100,000 shares to be used only for the grant of stock awards to persons not previously employed by us, or following a bona fide period of non-employment, as an inducement material to those persons entering into employment with us within the meaning of Rule 4350(i)(1)(A)(iv) of the Nasdaq Marketplace Rules, and to provide that any such inducement awards must be granted either by a majority of our independent directors or a committee comprised of a majority of independent directors. On March 18, 2006, our board of directors amended and restated the 2005 Equity Plan to reserve an additional 500,000 shares for issuance under the 2005 Equity Plan which was subsequently approved by our stockholders in June 2006. On March 30, 2007, our board of directors approved an amendment to the 2005 Equity Plan to reserve additional shares for issuance under the 2005 Equity Plan; the number of shares to be determined by the compensation committee of our board of directors. On April 24, 2007, the compensation committee of our board of directors reserved 1,500,000 additional shares for issuance under the 2005 Equity Plan pursuant to this amendment. This amendment to the 2005 Equity Plan was subsequently approved by our stockholders in June 2007. On August 1, 2007, the compensation committee of our board of directors amended certain provisions of the 2005 Equity Plan to increase, on a going forward basis, the number of shares of common stock that an individual Hollis-Eden employee shall be eligible to be granted pursuant to a stock option or performance-based stock award during any calendar year from 250,000 to 500,000 shares. On March 28, 2008, our board approved an amendment to the 2005 Equity Plan to reserve an additional 800,000 shares for issuance under the 2005 Equity Plan, subject to approval by our stockholders at this annual meeting.

This Proposal 2 seeks approval by our stockholders of an increase in the total number of shares that may be issued under the 2005 Equity Plan by 800,000 shares.

Approval of the increase of the total number of the shares of common stock reserved for issuance under the 2005 Equity Plan for which approval is sought under this Proposal 2 will allow us to continue to grant stock options and other awards at levels determined appropriate by our board of directors. The additional 800,000 shares will increase the total shares of common stock reserved for issuance under the 2005 Equity Plan to an aggregate of 8,400,000. At March 31 2008, options (net of cancelled, forfeited and exercised options) covering an aggregate of 6,524,685 shares had been granted under the 2005 Equity Plan and the 1997 Option Plan, and 904,454 shares (plus any shares that might in the future be returned to the 2005 Equity Plan and the 1997 Option Plan as a result of cancellations or expiration of options) remained available for future grant under the 2005 Equity Plan. Since its inception, the Company has utilized stock options as an important long-term incentive and as a component of total employee compensation. Our Company s success depends on the continued service of the Company s key scientific, technical, sales, marketing and executive personnel, and our ability to identify, hire and retain qualified personnel. Because of the importance of stock options to the Company s continued success, our board of directors strongly supports this Proposal 2. If this Proposal 2 is not approved, the Company may not able to implement adequate alternative long-term retention and incentive programs and stockholders should understand that the Company may be unable to retain existing personnel or identify or hire additional personnel which may negatively affect our ability to meet our needs for highly qualified personnel and materially and adversely affect our corporate goals, business and results of operations.

Our stockholders are requested in this Proposal 2 to approve the proposed increase to the total number of shares reserved for issuance under the 2005 Equity Plan. The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to approve the actions contemplated by this Proposal 2. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

OUR BOARD OF DIRECTORS RECOMMENDS

A VOTE IN FAVOR OF PROPOSAL 2.

The following is a summary of the principal features of the 2005 Equity Plan. This summary is subject to, and qualified in its entirety by, the full text of the 2005 Equity Plan, a copy of which, substantially in the form in which it will take effect if this Proposal 2 is approved by our stockholders, is attached as Appendix A to this proxy statement.

General

The 2005 Equity Plan provides for the grant of incentive stock options, nonstatutory stock options, stock appreciation rights, stock purchase awards, restricted stock awards, restricted stock unit awards, and other forms of equity compensation (collectively, stock awards). Incentive stock options granted under the 2005 Equity Plan are intended to qualify as incentive stock options within the meaning of Section 422 of the Code. Nonstatutory stock options granted under the 2005 Equity Plan are not intended to qualify as incentive stock options under the Code. See Federal Income Tax Information for a discussion of the tax treatment of stock awards.

Purpose

Our board adopted the 2005 Equity Plan to provide a means to secure and retain the services of employees (including officers), consultants and directors eligible to receive stock awards, to provide incentives for such individuals to exert maximum efforts for the success of Hollis-Eden and its affiliates, and to provide a means by which such eligible individuals may be given an opportunity to benefit from increases in the value of Hollis-Eden s common stock through the grant of stock awards.

Administration

Our board administers the 2005 Equity Plan. Subject to the provisions of the 2005 Equity Plan, our board has the authority to construe and interpret the plan, to determine the persons to whom and the dates on which stock awards will be granted, the number of shares of common stock to be subject to each stock award, the time or times during the term of each stock award within which all or a portion of the award may be exercised, the exercise, purchase, or strike price of each stock award, the type of consideration permitted to exercise or purchase each stock award, and other terms of the stock awards.

Our board has the authority to delegate some or all of the administration of the 2005 Equity Plan to a committee or committees. In the discretion of our board, a committee may consist solely of two or more non-employee directors within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934, as amended, or solely of two or more outside directors within the meaning of Section 162(m) of the Code. Our board has delegated administration of the 2005 Equity Plan to the Compensation Committee of our board. If administration is delegated to a committee, the committee has the authority to delegate certain administrative powers to a subcommittee of one or more members. As used herein with respect to the 2005 Equity Plan, our board refers to any committee our board appoints or, if applicable, any subcommittee, as well as to our board itself.

Eligibility

Incentive stock options may be granted under the 2005 Equity Plan only to employees (including officers) of Hollis-Eden and its affiliates. Employees (including officers), consultants and directors of Hollis-Eden and its affiliates are eligible to receive all other types of stock awards under the 2005 Equity Plan. All employees, consultants and directors of Hollis-Eden and its affiliates are eligible to participate in the 2005 Equity Plan.

No incentive stock option may be granted under the 2005 Equity Plan to any person who, at the time of the grant, owns (or is deemed to own) stock possessing more than 10% of the total combined voting power of Hollis-Eden or its affiliates, unless the exercise price of such option is at least 110% of the fair market value of the stock subject to the option on the date of grant and the term of the option does not exceed five years from the date of grant. In addition, the aggregate fair market value, determined on the date of grant, of the shares of common stock with respect to which incentive stock options are exercisable for the first time by a participant during any calendar year (under the 2005 Equity Plan and any other plans of Hollis-Eden and its affiliates) may not exceed $100,000.

Under the 2005 Equity Plan, except with respect to inducement awards (see Inducement Awards below), no person may be granted stock awards whose value is determined by reference to an increase over an exercise or strike price of at least 100% of the fair market value of the common stock on the date of grant under the 2005 Equity Plan covering more than 250,000 shares of common stock during any calendar year; provided, effective with respect to stock awards, other than Inducement Awards, granted on or after August 1, 2007, such share limit shall be increased by an additional 250,000 shares of Common Stock and no person shall be eligible to be granted during any calendar year ending thereafter stock awards covering more than five hundred thousand (500,000) shares of common stock. (the Annual Share Limitation).

Stock Subject to the 2005 Equity Plan

Subject to stockholder approval of this Proposal 2 at the annual meeting, an aggregate of 8,400,000 shares of common stock are reserved for issuance under the 2005 Equity Plan, which includes 5,150,000 shares of common stock previously reserved for issuance under the 1997 Option Plan, 350,000 shares approved by our stockholders at the 2005 annual meeting of stockholders, 100,000 shares (inducement shares) separately reserved for issuance as inducement awards , 500,000 shares approved by our stockholders at the 2006 annual meeting of stockholders, 1,500,000 shares approved by our stockholders at the 2007 annual meeting of stockholders, plus an additional 800,000 shares. If a stock award granted under either the 2005 Equity Plan or the 1997 Option Plan expires or otherwise terminates without being exercised in full, or if any shares of common stock issued pursuant to a stock award are forfeited to or repurchased by Hollis-Eden, including, but not limited to, any repurchase or forfeiture caused by the failure to meet a contingency or condition required for the vesting of such shares, then the shares of common stock not issued under such stock award, or forfeited to or repurchased by Hollis-Eden shall revert to and again become available for issuance under the 2005 Equity Plan. If any shares subject to a stock award are not delivered to a participant because such shares are withheld for the payment of taxes or the stock award is exercised through a reduction of shares subject to the stock award (i.e., net exercised), the number of shares that are not delivered shall remain available for issuance under the 2005 Equity Plan. If the exercise price of any stock award is satisfied by tendering shares of common stock held by the participant, then the number of shares so tendered shall remain available for issuance under the 2005 Equity Plan. Inducement shares that revert to, or remain available for subsequent issuance under, the 2005 Equity Plan may only be granted to the persons described below (see Inducement Awards). The aggregate maximum number of shares of common stock that may be issued under the 2005 Equity Plan pursuant to the exercise of incentive stock options is 8,300,000 shares plus the amount of any future increase in the number of shares that may be available for issuance under the 2005 Equity Plan. Inducement shares (see Inducement Awards below) may not be used to grant awards of incentive stock options.

As of April 21, 2008, the closing price of our common stock as reported on The Nasdaq Global Market was $1.48 per share.

Terms of Options

Options may be granted under the 2005 Equity Plan pursuant to stock option agreements. The following is a description of the permissible terms of options under the 2005 Equity Plan. Individual stock option agreements may be more restrictive as to any or all of the permissible terms described below.

Exercise Price. The exercise price of incentive stock options may not be less than 100% of the fair market value of the stock subject to the option on the date of grant and, in some cases (see Eligibility above), may not be less than 110% of such fair market value. The exercise price of nonstatutory stock options may not be less than 100% of the fair market value of the stock on the date of grant.

Consideration. The exercise price of options granted under the 2005 Equity Plan must be paid, to the extent permitted by applicable law and at the discretion of our board, (i) by cash or check, (ii) pursuant to a broker-assisted cashless exercise, (iii) by delivery of other common stock of Hollis-Eden, (iv) pursuant to a net exercise arrangement, or (iv) in any other form of legal consideration acceptable to our board.

Vesting. Options granted under the 2005 Equity Plan may become exercisable in cumulative increments, or vest, as determined by our board. Vesting typically will occur during the optionholder s continued service with Hollis-Eden or an affiliate, whether such service is performed in the capacity of an employee, consultant or director (collectively, service) and regardless of any change in the capacity of the service performed. Shares covered by different options granted under the 2005 Equity Plan may be subject to different vesting terms. The Board has the authority to accelerate the time during which an option may vest or be exercised.

Tax Withholding. To the extent provided by the terms of a stock option agreement, Hollis-Eden may cause a participant to satisfy any federal, state or local tax withholding obligation relating to the exercise of the option by a cash payment upon exercise, by withholding a portion of the stock otherwise issuable to the participant, by accepting the delivery of already-owned common stock of Hollis-Eden, or by a combination of these means.

Term. The maximum term of options granted under the 2005 Equity Plan is 10 years, except that in certain cases (see Eligibility above) the maximum term is five years.

Termination of Service. Options granted under the 2005 Equity Plan generally terminate three months after termination of the participant s service unless (i) termination is due to the participant s disability, in which case the option may be exercised (to the extent the option was exercisable at the time of the termination of service) at any time within 12 months following termination; (ii) the participant dies before the participant s service has terminated, or within generally three months after termination of service, in which case the option may be exercised (to the extent the option was exercisable at the time of the participant s death) within 18 months following the participant s death by the person or persons to whom the rights to such option have passed; or (iii) the option by its terms specifically provides otherwise. Under the 2005 Equity Plan, the option term may be extended in the event that exercise of the option following termination of service is prohibited by applicable securities laws.

Restrictions on Transfer. Unless provided otherwise by our board, a participant in the 2005 Equity Plan may not transfer an option other than by will or by the laws of descent and distribution or pursuant to a domestic relations order and during the lifetime of the participant, only the participant (or the transferee pursuant to a domestic relations order) may exercise an option. A participant may also designate a beneficiary who may exercise an option following the participant s death.

Terms of Stock Appreciation Rights

Stock appreciation rights may be granted under the 2005 Equity Plan pursuant to stock appreciation rights agreements.

Exercise. Each stock appreciation right is denominated in shares of common stock equivalents. Upon exercise of a stock appreciation right, Hollis-Eden will pay the participant an amount equal to the excess of (i) the aggregate fair market value of Hollis-Eden s common stock on the date of exercise, over (ii) the strike price determined by our board on the date of grant.

Settlement of Awards. The appreciation distribution upon exercise of a stock appreciation right may be paid in cash, shares of Hollis-Eden s common stock, or any other form of consideration determined by our board.

Vesting. Stock appreciation rights vest and become exercisable at the rate specified in the stock appreciation right agreement as determined by our board.

Termination of Service. Upon termination of a participant s service, the participant generally may exercise any vested stock appreciation right for three months (or such longer or shorter period specified in the stock appreciation right agreement) after the date such service relationship ends. In no event may a stock appreciation right be exercised beyond the expiration of its term.

Terms of Stock Purchase Awards and Restricted Stock Awards

Stock purchase awards and restricted stock awards may be granted under the 2005 Equity Plan pursuant to stock purchase award agreements and restricted stock award agreements, respectively.

Purchase Price. The purchase price for stock purchase awards must be at least the par value of Hollis-Eden s common stock.

Consideration. The purchase price for stock purchase awards may be payable either (i) in cash or by check, (ii) by past service rendered to Hollis-Eden, or (iii) in any other form of legal consideration acceptable to our board. Our board may grant restricted stock awards in consideration for past services rendered to Hollis-Eden or in exchange for any other form of legal consideration acceptable to our board, without the payment of a purchase price.

Vesting. Shares of stock acquired under a stock purchase or restricted stock award may, but need not, be subject to a repurchase option in favor of Hollis-Eden or forfeiture to Hollis-Eden in accordance with a vesting schedule as determined by our board. Our board has the authority to accelerate the vesting of stock acquired pursuant to a stock purchase or restricted stock award.

Termination of Service. Upon termination of a participant s service, Hollis-Eden may repurchase or otherwise reacquire any forfeited shares of stock that have not vested as of such termination under the terms of the applicable stock purchase award or restricted stock award agreement.

Restrictions on Transfer. Rights to acquire shares under a stock purchase or restricted stock award may be transferred only upon such terms and conditions as determined by our board.

Terms of Restricted Stock Unit Awards

Restricted stock unit awards may be granted under the 2005 Equity Plan pursuant to restricted stock unit award agreements.

Consideration. The purchase price, if any, for restricted stock unit awards may be paid in any form of legal consideration acceptable to our board.

Settlement of Awards. A restricted stock unit award may be settled by the delivery of shares of Hollis-Eden s common stock, in cash, or by any combination of these means as determined by our board.

Vesting. Restricted stock unit awards vest at the rate specified in the restricted stock unit award agreement as determined by our board. However, at the time of grant, our board may impose additional restrictions or conditions that delay the delivery of stock or cash subject to the restricted stock unit award after vesting.

Dividend Equivalents. Dividend equivalent rights may be credited with respect to shares covered by a restricted stock unit award. Hollis-Eden does not anticipate paying cash dividends on its common stock for the foreseeable future, however.

Termination of Service. Except as otherwise provided in the applicable award agreement, restricted stock units that have not vested will be forfeited upon the participant s termination of service.

Terms of Other Equity Awards

Our board may grant other equity awards that are valued in whole or in part by reference to Hollis-Eden s common stock. Subject to the provisions of the 2005 Equity Plan, our board has the authority to determine the persons to whom and the dates on which such other equity awards will be granted, the number of shares of common stock (or cash equivalents) to be subject to each award, and other terms and conditions of such awards.

Performance-Based Stock Awards

Under the 2005 Equity Plan, a stock award may be granted, vest or be exercised based upon certain service conditions or upon the attainment during a certain period of time of certain performance goals. All employees, consultants and directors of Hollis-Eden and its affiliates are eligible to receive performance-based stock awards under the 2005 Equity Plan. The length of any performance period, the performance goals to be achieved during the performance period, and the measure of whether and to what degree such performance goals have been attained shall be determined by our board. The maximum amount to be received by any individual in any calendar year attributable to such performance-based stock awards may not exceed 250,000 shares of Hollis-Eden s common stock; provided, effective with respect to performance-based stock awards granted on or after August 1, 2007, such share limit shall be increased by an additional 250,000 shares of common stock and the maximum benefit to be received by any individual in any calendar year ending thereafter attributable to performance-based stock awards shall not exceed the value of five hundred thousand (500,000) shares of common stock.

In granting a performance-based stock award, our board will set a period of time (a performance period) over which the attainment of one or more goals (performance goals) will be measured for the purpose of determining whether the award recipient has a vested right in or to such stock award. Within the time period prescribed by Section 162(m) of the Code (typically before the 90th day of a performance period), our board will establish the performance goals, based upon one or more pre-established criteria (performance criteria) enumerated in the 2005 Equity Plan and described below. As soon as administratively practicable following the end of the performance period, our board will certify (in writing) whether the performance goals have been satisfied.

Performance goals under the 2005 Equity Plan shall be determined by our board, based on a service condition or on one or more of the following performance criteria: (i) earnings per share; (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) total stockholder return; (v) return on equity; (vi) return on assets, investment, or capital employed; (vii) operating margin; (viii) gross margin; (ix) operating income; (x) net income (before or after taxes); (xi) net operating income; (xii) net operating income after tax; (xiii) pre-tax profit; (xiv) operating cash flow; (xv) sales or revenue targets; (xvi) increases in revenue or product revenue; (xvii) expenses and cost reduction goals; (xviii) improvement in or attainment of working capital levels; (xix) economic value added (or an equivalent metric); (xx) market share; (xxi) cash flow; (xxii) cash flow per share; (xxiii) share price performance; (xxiv) debt reduction; (xxv) implementation or completion of projects or processes; (xxvi) customer satisfaction; (xxvii) stockholders equity; and (xxviii) to the extent that an award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by our board.

At the time of the grant of any stock award under the 2005 Equity Plan, our board is authorized to determine whether, when calculating attainment of performance goals and objectives for a performance period: (a) to exclude restructuring and/or other nonrecurring charges; (b) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated net sales and operating earnings; (c) to exclude the effects of changes to generally accepted accounting standards required by the Financial Accounting Standards Board; (d) to exclude the effects to any statutory adjustments to corporate tax rates; and (e) to exclude the impact of any extraordinary items as determined under generally accepted accounting principles.

Compensation attributable to performance-based stock awards under the 2005 Equity Plan will generally qualify as performance-based compensation, provided that: (i) the award is granted by a compensation committee comprised solely of outside directors, (ii) the award is granted (or exercisable) only upon the achievement of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, (iii) the Compensation Committee certifies in writing prior to the granting (or exercisability) of the award that the performance goal has been satisfied.

Inducement Awards

Our board may grant stock awards (other than incentive stock options) covering the 100,000 shares reserved under the 2005 Equity Plan as inducement shares to employees not previously employed by us or directors of Hollis-Eden as inducements material to the individuals entering into employment with us within the meaning of Rule 4350(i)(1)(A)(iv) of the Nasdaq Marketplace Rules (inducement awards). All such inducement awards must be granted either by a majority of our independent directors or a committee comprised of a majority of independent directors.

Changes to Capital Structure

If any change is made to the outstanding shares of Hollis-Eden s common stock without Hollis-Eden s receipt of consideration (whether through a stock split or other specified change in the capital structure of Hollis-Eden), appropriate adjustments will be made to: (i) the maximum number and/or class of securities issuable under the 2005 Equity Plan, (ii) the maximum number and/or class of securities that may be issued pursuant to the exercise of incentive stock options, (iii) the maximum number and/or class of securities for which any one person may be granted options and/or stock appreciation rights or performance-based stock awards per calendar year pursuant to the Annual Share Limitation, and (iv) the number and/or class of securities and the price per share in effect under each outstanding stock award under the 2005 Equity Plan.

Corporate Transactions; Changes in Control

Under the 2005 Equity Plan, unless otherwise provided in a written agreement between Hollis-Eden or any affiliate and the holder of the stock award, in the event of a corporate transaction (as defined in the 2005 Equity Plan), all outstanding stock awards under the 2005 Equity Plan may be assumed, continued or substituted for by any surviving or acquiring entity (or its parent company). If the surviving or acquiring entity (or its parent company) elects not to assume, continue or substitute for such stock awards, then (i) with respect to any such stock awards that are held by individuals whose continuous service with Hollis-Eden or its affiliates has not terminated prior to the effective date of the corporate transaction, the vesting and exercisability provisions of such stock awards will be accelerated in full and such awards will terminate if not exercised prior to the effective date of the corporate transaction, and (ii) with respect to any stock awards that are held by individuals whose continuous service with Hollis-Eden or its affiliates has terminated prior to the effective date of the corporate transaction, the vesting and exercisability provisions of such stock awards will not be accelerated and such awards will terminate if not exercised prior to the effective date of the corporate transaction (except that any reacquisition or repurchase rights held by Hollis-Eden with respect to such stock awards shall not terminate and may continued to be exercised notwithstanding the corporate transaction). In the event a stock award will terminate if not exercised, our board may provide, in its sole discretion, that the holder of such stock award may not exercise such stock award but will receive a payment equal to the excess of the value of the property the holder would have received upon exercise over any exercise price.

Other stock awards, such as stock purchase awards, may have their repurchase or forfeiture rights assigned to the surviving or acquiring entity (or its parent company) in the corporate transaction. If such repurchase or forfeiture rights are not assigned, then such stock awards will become fully vested.

In addition, each stock award under the 2005 Equity Plan will immediately vest as to all of the shares subject to the stock award upon the occurrence of certain specified change in control transactions (as defined in the 2005 Equity Plan), whether or not such stock award is assumed, continued, or substituted by a surviving or acquiring entity in the transaction.

Duration, Termination and Amendment

Our board may suspend or terminate the 2005 Equity Plan without stockholder approval or ratification at any time. Unless sooner terminated, the 2005 Equity Plan will terminate on April 26, 2015.

Our board may amend or modify the 2005 Equity Plan at any time. However, no amendment shall be effective unless approved by the stockholders of Hollis-Eden to the extent stockholder approval is necessary to satisfy applicable law.

Our board also may submit any other amendment to the 2005 Equity Plan intended to satisfy the requirements of Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limitation on the deductibility of compensation paid to certain employees.

Federal Income Tax Information

The following is a summary of the principal United States federal income taxation consequences to employees and Hollis-Eden with respect to participation in the 2005 Equity Plan. This summary is not intended to be exhaustive, and does not discuss the income tax laws of any city, state or foreign jurisdiction in which a participant may reside.

Incentive Stock Options. Incentive stock options granted under the 2005 Equity Plan are intended to be eligible for the favorable federal income tax treatment accorded incentive stock options under the Code. There generally are no federal income tax consequences to the participant or Hollis-Eden by reason of the grant or exercise of an incentive stock option. However, the exercise of an incentive stock option may increase the participant s alternative minimum tax liability, if any.

If a participant holds stock acquired through exercise of an incentive stock option for more than two years from the date on which the option was granted and more than one year after the date the option was exercised for those shares, any gain or loss on a disposition of those shares (a qualifying disposition) will be a long-term capital gain or loss. Upon such a qualifying disposition, Hollis-Eden will not be entitled to any income tax deduction.

Generally, if the participant disposes of the stock before the expiration of either of these holding periods (a disqualifying disposition), then at the time of disposition the participant will realize taxable ordinary income equal to the lesser of (i) the excess of the stock s fair market value on the date of exercise over the exercise price, or (ii) the participant s actual gain, if any, on the purchase and sale. The participant s additional gain or any loss upon the disqualifying disposition will be a capital gain or loss, which will be long-term or short-term depending on whether the stock was held for more than one year.

To the extent the participant recognizes ordinary income by reason of a disqualifying disposition, generally Hollis-Eden will be entitled (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code, and the satisfaction of a tax reporting obligation) to a corresponding income tax deduction in the tax year in which the disqualifying disposition occurs.

Nonstatutory Stock Options. No taxable income is recognized by a participant upon the grant of a nonstatutory stock option. Upon exercise of a nonstatutory stock option, the participant will recognize ordinary income equal to the excess, if any, of the fair market value of the purchased shares on the exercise date over the exercise price paid for those shares. Generally, with respect to employees, Hollis-Eden is required to withhold from the amount received upon exercise of the stock option or from regular wages or supplemental wage payments an amount based on the ordinary income recognized. Generally, Hollis-Eden will be entitled (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code, and the satisfaction of a tax reporting obligation) to a corresponding income tax deduction in the tax year in which such ordinary income is recognized by the participant.

Upon disposition of the stock, the participant will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon acquisition (or vesting) of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one year.

Stock Appreciation Rights. No taxable income is realized upon the receipt of a stock appreciation right. Upon exercise of the stock appreciation right, the fair market value of the shares (or cash in lieu of shares) received is recognized as ordinary income to the participant in the year of such exercise. Generally, with respect to employees, Hollis-Eden is required to withhold from the payment made on exercise of the stock appreciation right or from regular wages or supplemental wage payments an amount based on the ordinary income recognized. Subject to the requirement of reasonableness, Section 162(m) of the Code and the satisfaction of a reporting obligation, Hollis-Eden will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the participant.

Stock Purchase Awards and Restricted Stock Awards. Upon receipt of a stock purchase or restricted stock award, the participant will recognize ordinary income equal to the excess, if any, of the fair market value of the shares on the date of issuance over the purchase price, if any, paid for those shares. Hollis-Eden will be entitled (subject to the requirement of reasonableness, the provisions of Section 162(m) of the Code, and the satisfaction of a tax reporting obligation) to a corresponding income tax deduction in the tax year in which such ordinary income is recognized by the participant.

However, if the shares issued upon the grant of a stock purchase or restricted stock award are unvested and subject to repurchase by Hollis-Eden in the event of the participant s termination of service prior to vesting in those shares, the participant will not recognize any taxable income at the time of issuance, but will have to report as ordinary income, as and when Hollis-Eden s repurchase right lapses, an amount equal to the excess of (i) the fair market value of the shares on the date the repurchase right lapses, over (ii) the purchase price, if any, paid for the shares. The participant may, however, elect under Section 83(b) of the Code to include as ordinary income in the year of issuance an amount equal to the excess of (x) the fair market value of the shares on the date of issuance, over (y) the purchase price, if any, paid for such shares. If the Section 83(b) election is made, the participant will not recognize any additional income as and when the repurchase right lapses.

Upon disposition of the stock acquired upon the receipt of a stock purchase or restricted stock award, the participant will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon issuance (or vesting) of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one year.

Restricted Stock Unit Awards. No taxable income is recognized upon receipt of a restricted stock unit award. The participant will recognize ordinary income in the year in which the shares subject to that unit are actually issued to the participant in an amount equal to the fair market value of the shares on the date of issuance. The participant and Hollis-Eden will be required to satisfy certain tax withholding requirements applicable to such income. Subject to the requirement of reasonableness, Section 162(m) of the Code and the satisfaction of a tax reporting obligation, Hollis-Eden will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the participant at the time the shares are issued. In general, the deduction will be allowed for the taxable year in which such ordinary income is recognized by the participant.

Potential Limitation on Company Deductions. Section 162(m) of the Code denies a deduction to any publicly-held corporation for compensation paid to certain covered employees in a taxable year to the extent that compensation to such covered employee exceeds $1 million. It is possible that compensation attributable to awards, when combined with all other types of compensation received by a covered employee from Hollis-Eden, may cause this limitation to be exceeded in any particular year.

Certain kinds of compensation, including qualified performance-based compensation, are disregarded for purposes of the deduction limitation. In accordance with Treasury Regulations issued under Section 162(m) of the Code, compensation attributable to stock options and stock appreciation rights will qualify as performance-based compensation if such awards are granted by a compensation committee comprised solely of outside directors and the plan contains a per-employee limitation on the number of shares for which such awards may be granted during a specified period, the per-employee limitation is approved by the stockholders, and the exercise or strike price of the award is no less than the fair market value of the stock on the date of grant.

Compensation attributable to stock options or stock appreciation rights with exercise or strike prices less than fair market value on the date of grant, stock purchase awards, restricted stock awards, and restricted stock unit awards will qualify as performance-based compensation, provided that: (i) the award is granted by a compensation committee comprised solely of outside directors, (ii) the award is granted (or exercisable) only upon the achievement of an objective performance goal established in writing by the compensation committee while the outcome is substantially uncertain, (iii) the Compensation Committee certifies in writing prior to the granting (or exercisability) of the award that the performance goal has been satisfied, and (iv) prior to the granting (or exercisability) of the award, stockholders have approved the material terms of the award (including the class of employees eligible for such award, the business criteria on which the performance goal is based, and the maximum amount, or formula used to calculate the amount, payable upon attainment of the performance goal).

New Plan Benefits

As of the date hereof, no options or other stock awards have been granted on the basis of the share increase for which stockholder approval is sought under this Proposal 2. Accordingly, future benefits or amounts received are not determinable.

The following table presents certain information with respect to options granted under the 2005 Equity Plan during the fiscal year ended December 31, 2007 to (i) our Chief Executive Officer, our Chief Financial Officer and our other **three** most highly compensated executive officers in 2007, and two other persons that served as our Chief Operating Officer and Chief Financial Officer and our Vice President, Corporate General Counsel, respectively, during 2007, (ii) all executive officers as a group, (iii) all non-employee directors as a group and (iv) all non-executive officer employees as a group. This information regarding grants for the fiscal year ended December 31, 2007 is for illustration only and may not be indicative of grants that are made in the future under the 2005 Equity Plan.

Name and Position	**Number of Shares Underlying Options**
Mr. Richard B. Hollis Chairman of the Board, President and Chief Executive Officer	500,000
Mr. Daniel D. Burgess [(1)] Former Chief Financial Officer and Chief Operating Officer	0
Dr. James M. Frincke Chief Operating Officer	200,000
Mr. Eric J. Loumeau [(2)] Former Vice President, Corporate General Counsel	0
Robert L. Marsella Senior Vice President, Business Development and Marketing	120,000
Dr. Christopher L. Reading Chief Scientific Officer	100,000
Robert W. Weber Interim Chief Financial Officer/Chief Accounting Officer and Vice President, Operations	100,000
All Executive Officers as a Group	1,020,000
All Non-Employee Directors as a Group	125,000
All Non-Executive Officer Employees as a Group	580,450

(1) Mr. Burgess resigned from the Company effective May 7, 2007.

(2) Mr. Loumeau resigned from the Company effective May 25, 2007.

Equity Compensation Plan Information

The following table provides information as of December 31, 2007 with respect to all of our compensation plans under which we are authorized to issue our equity securities.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Stock option equity compensation plans approved by security holders	6,037,377	$ 7.00	1,888,825
Stock option equity compensation plans not approved by security holders	1,663,500	$ 6.81	
Warrant equity compensation plans not approved by security holders	64,000	$ 5.56	

Our equity compensation plans and arrangements adopted without the approval of securities holders that were in effect as of December 31, 2007, and the material features of such plans and arrangements, are described in Note 9 (Stock Options Non-Plan Options) and Note 10 (Common Stock Purchase Warrants) in the Notes to Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2007.

Proposal 3

APPROVAL OF AN INCREASE TO THE NUMBER OF SHARES RESERVED

FOR ISSUANCE UNDER THE 2005 NON-EMPLOYEE DIRECTORS EQUITY INCENTIVE PLAN

On April 27, 2005, our board of directors adopted the Hollis-Eden Pharmaceuticals, Inc. 2005 Non-Employee Directors Equity Incentive Plan (the 2005 Directors Plan). The 2005 Directors Plan was approved by our stockholders in June 2005. In December 2005, our board of directors amended the 2005 Directors Plan to refine and clarify certain other provisions of the 2005 Directors Plan to the extent necessary to make the 2005 Directors Plan fully effective. On March 18, 2006, our board of directors amended and restated the 2005 Directors Plan to reserve an additional 150,000 shares for issuance which was subsequently approved by our stockholders in June 2006. On April 24, 2007, our board of directors approved the amendment to the 2005 Directors Plan to reserve an additional 150,000 shares for issuance which was subsequently approved by our stockholders in June 2007. On March 28, 2008, our board of directors approved an amendment to our 2005 Directors Plan to reserve an additional 150,000 shares for issuance, subject to approval by our stockholders at this annual meeting.

This Proposal 3 seeks to increase the shares of common stock reserved for issuance under the 2005 Directors Plan by 150,000 shares for a total of 600,000 shares reserved for issuance under the 2005 Directors Plan. At March 31, 2008, options covering an aggregate of 448,000 shares had been granted under the 2005 Director s Plan, and 2,000 shares (other than any shares that might in the future be returned to the 2005 Directors Plan as a result of cancellations or expirations of options) remained available for future grant under the 2005 Directors Plan.

The approval of the increase the shares of common stock reserved for issuance under the 2005 Directors Plan will allow Hollis-Eden to continue to grant stock options and other awards at levels determined appropriate by our board of directors. Because of the increasing time commitments and liability exposure resulting from recent Nasdaq and Securities and Exchange Commission rules and regulations, as well as to bring our board compensation more in line with industry standards, our board believes it is important for us to have the ability to grant a sufficient number of stock options to attract and retain the most qualified non-employee directors in the industry. Accordingly, the approval of the amendment to the 2005 Directors Plan will allow us flexibility in attracting and retaining qualified non-employee directors by granting stock options and other awards to non-employee directors at levels determined appropriate by our board and the Compensation Committee.

Stockholders are requested in this Proposal 3 to approve the proposed increase in the total number of shares reserved for issuance under the 2005 Directors Plan. The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to approve the increase in the share reserve under the 2005 Directors Plan. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

OUR BOARD OF DIRECTORS RECOMMENDS

A VOTE IN FAVOR OF PROPOSAL 3.

The following is a summary of the principal features of the 2005 Directors Plan. This summary is subject to, and qualified in its entirety by, the full text of the 2005 Directors Plan, a copy of which, substantially in the form in which it will take effect if this Proposal 3 is approved by our stockholders, is attached as Appendix B to this proxy statement.

General

The 2005 Directors Plan provides for the grant of nonstatutory stock options, stock appreciation rights, stock purchase awards, restricted stock awards, restricted stock unit awards, and other forms of equity compensation (collectively, stock awards). Any stock awards granted under the 2005 Directors Plan will be granted in the board s discretion. Nonstatutory stock options granted under the 2005 Directors Plan are not intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Code). See Federal Income Tax Information for a discussion of the tax treatment of stock awards.

Purpose

Our board adopted the 2005 Directors Plan to provide a means to secure and retain the services of non-employee directors eligible to receive stock awards, to provide incentives for such individuals to exert maximum efforts for the success of Hollis-Eden and its affiliates, and to provide a means by which such eligible individuals may be given an opportunity to benefit from increases in the value of Hollis-Eden s common stock through the grant of stock awards.

Administration

Our board administers the 2005 Directors Plan. Subject to the provisions of the 2005 Directors Plan, our board has the authority to construe and interpret the 2005 Directors Plan, to determine the persons to whom and the dates on which stock awards will be granted, the number of shares of common stock to be subject to each stock award, the time or times during the term of each stock award within which all or a portion of the award may be exercised, the exercise, purchase, or strike price of each stock award, the type of consideration permitted to exercise or purchase each stock award, and other terms of the stock awards.

Our board has the authority to delegate some or all of the administration of the 2005 Directors Plan to a committee or committees. Our board has delegated such administration to the Compensation Committee of our board. In the discretion of our board, a committee may consist solely of two or more non-employee directors within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934, as amended. If administration is delegated to a committee, the committee has the authority to delegate certain administrative powers to a subcommittee of one or more members. As used herein with respect to the 2005 Directors Plan, our board refers to any committee our board appoints or, if applicable, any subcommittee, as well as to our board itself.

Eligibility

Only non-employee directors of Hollis-Eden are eligible to receive stock awards under the 2005 Directors Plan.

Stock Subject to the 2005 Directors Plan

Subject to stockholder approval of this Proposal 3 at the annual meeting, a maximum of 600,000 shares of common stock are available for issuance under the 2005 Directors Plan, which includes 450,000 shares, previously reserved for issuance under the 2005 Directors Plan, plus an additional 150,000 shares. If a stock award granted under the 2005 Directors Plan expires or otherwise terminates without being exercised in full, or if any shares of common stock issued pursuant to a stock award are forfeited to or repurchased by Hollis-Eden, including, but not limited to, any repurchase or forfeiture caused by the failure to meet a contingency or condition required for the vesting of such shares, then the shares of common stock not issued under such stock award, or forfeited to or repurchased by Hollis-Eden shall revert to and again become available for issuance under the 2005 Directors Plan. If any shares subject to a stock award are not delivered to a participant because such shares are withheld for the payment of taxes or the stock award is exercised through a reduction of shares subject to the stock award (i.e., net exercised), the number of shares that are not delivered shall remain available for issuance under the 2005 Directors Plan. If the exercise price of any stock award is satisfied by tendering shares of common stock held by the participant, then the number of shares so tendered shall remain available for issuance under the 2005 Directors Plan.

As of April 21, 2008, the closing price of our common stock as reported on The Nasdaq Global Market was $1.48 per share.

Terms of Options

Options may be granted under the 2005 Directors Plan pursuant to stock option agreements. The following is a description of the permissible terms of options under the 2005 Directors Plan. Individual stock option agreements may be more restrictive as to any or all of the permissible terms described below.

Exercise Price. The exercise price of nonstatutory stock options may not be less than 100% of the fair market value of the stock on the date of grant.

Consideration. The exercise price of options granted under the 2005 Directors Plan must be paid, to the extent permitted by applicable law and at the discretion of our board, (i) by cash or check, (ii) pursuant to a broker-assisted cashless exercise, (iii) by delivery of other common stock of Hollis-Eden, (iv) pursuant to a net exercise arrangement, or (iv) in any other form of legal consideration acceptable to our board.

Vesting. Options granted under the 2005 Directors Plan may become exercisable in cumulative increments, or vest, as determined by our board. Vesting typically will occur during the optionholder s continued service with Hollis-Eden or an affiliate, whether such service is performed in the capacity of an employee, consultant or director (collectively, service) and regardless of any change in the capacity of the service performed. Shares covered by different options granted under the 2005 Directors Plan may be subject to different vesting terms. The Board has the authority to accelerate the time during which an option may vest or be exercised.

Tax Withholding. To the extent provided by the terms of a stock option agreement, a participant may satisfy any federal, state or local tax withholding obligation relating to the exercise of the option by a cash payment upon exercise, by authorizing Hollis-Eden to withhold a portion of the stock otherwise issuable to the participant, by delivering already-owned common stock of Hollis-Eden, or by a combination of these means.

Term. The maximum term of options granted under the 2005 Directors Plan is 10 years.

Termination of Service. Options granted under the 2005 Directors Plan generally terminate three months after termination of the participant s service unless (i) termination is due to the participant s disability, in which case the option may be exercised (to the extent the option was exercisable at the time of the termination of service) at any time within 12 months following termination; (ii) the participant dies before the participant s service has terminated, or within generally three months after termination of service, in which case the option may be exercised (to the extent the option was exercisable at the time of the participant s death) within 18 months following the participant s death by the person or persons to whom the rights to such option have passed; or (iii) the option by its terms specifically provides otherwise. Under the 2005 Directors Plan, the option term may be extended in the event that exercise of the option following termination of service is prohibited by applicable securities laws. In no event, however, may an option be exercised beyond the expiration of its term.

Restrictions on Transfer. Unless provided otherwise by our board, a participant in the 2005 Directors Plan may not transfer an option other than by will or by the laws of descent and distribution or pursuant to a domestic relations order and during the lifetime of the participant, only the participant (or the transferee pursuant to a domestic relations order) may exercise an option. A participant may also designate a beneficiary who may exercise an option following the participant s death.

Terms of Stock Appreciation Rights

Stock appreciation rights may be granted under the 2005 Directors Plan pursuant to stock appreciation rights agreements.

Exercise. Each stock appreciation right is denominated in shares of common stock equivalents. Upon exercise of a stock appreciation right, Hollis-Eden will pay the participant an amount equal to the excess of (i) the aggregate fair market value of Hollis-Eden s common stock on the date of exercise, over (ii) the strike price determined by our board on the date of grant.

Settlement of Awards. The appreciation distribution upon exercise of a stock appreciation right may be paid in cash, shares of Hollis-Eden s common stock, or any other form of consideration determined by our board.

Vesting. Stock appreciation rights vest and become exercisable at the rate specified in the stock appreciation right agreement as determined by our board.

Termination of Service. Upon termination of a participant s service, the participant generally may exercise any vested stock appreciation right for three months (or such longer or shorter period specified in the stock appreciation right agreement) after the date such service relationship ends. In no event may a stock appreciation right be exercised beyond the expiration of its term.

Terms of Stock Purchase Awards and Restricted Stock Awards

Stock purchase awards and restricted stock awards may be granted under the 2005 Directors Plan pursuant to stock purchase award agreements and restricted stock award agreements, respectively.

Purchase Price. The purchase price for stock purchase awards must be at least the par value of Hollis-Eden s common stock.

Consideration. The purchase price for stock purchase awards may be payable either (i) in cash or by check, (ii) by past service rendered to Hollis-Eden, or (iii) in any other form of legal consideration acceptable to our board. The Board may grant restricted stock awards in consideration for past services rendered to Hollis-Eden or in exchange for any other form of legal consideration acceptable to our board, without the payment of a purchase price.

Vesting. Shares of stock acquired under a stock purchase or restricted stock award may, but need not, be subject to a repurchase option in favor of Hollis-Eden or forfeiture to Hollis-Eden in accordance with a vesting schedule as determined by our board. The Board has the authority to accelerate the vesting of stock acquired pursuant to a stock purchase or restricted stock award.

Termination of Service. Upon termination of a participant s service, Hollis-Eden may repurchase or otherwise reacquire any forfeited shares of stock that have not vested as of such termination under the terms of the applicable stock purchase award or restricted stock award agreement.

Restrictions on Transfer. Rights to acquire shares under a stock purchase or restricted stock award may be transferred only upon such terms and conditions as determined by our board.

Terms of Restricted Stock Unit Awards

Restricted stock unit awards may be granted under the 2005 Directors Plan pursuant to restricted stock unit award agreements.

Consideration. The purchase price, if any, for restricted stock unit awards may be paid in any form of legal consideration acceptable to our board.

Settlement of Awards. A restricted stock unit award may be settled by the delivery of shares of Hollis-Eden s common stock, in cash, or by any combination of these means as determined by our board.

Vesting. Restricted stock unit awards vest at the rate specified in the restricted stock unit award agreement as determined by our board. However, at the time of grant, our board may impose additional restrictions or conditions that delay the delivery of stock or cash subject to the restricted stock unit award after vesting.

Dividend Equivalents. Dividend equivalent rights may be credited with respect to shares covered by a restricted stock unit award. Hollis-Eden does not anticipate paying cash dividends on its common stock for the foreseeable future, however.

Termination of Service. Except as otherwise provided in the applicable award agreement, restricted stock units that have not vested will be forfeited upon the participant s termination of service.

Terms of Other Equity Awards

The board may grant other equity awards that are valued in whole or in part by reference to Hollis-Eden s common stock. Subject to the provisions of the 2005 Directors Plan, our board has the authority to determine the persons to whom and the dates on which such other equity awards will be granted, the number of shares of common stock (or cash equivalents) to be subject to each award, and other terms and conditions of such awards.

Changes to Capital Structure

If any change is made to the outstanding shares of Hollis-Eden s common stock without Hollis-Eden s receipt of consideration (whether through a stock split or other specified change in the capital structure of Hollis-Eden), appropriate adjustments will be made to: (i) the maximum number and/or class of securities issuable under the 2005 Directors Plan, and (ii) the number and/or class of securities and the price per share in effect under each outstanding stock award under the 2005 Directors Plan.

Corporate Transactions; Changes in Control

Under the 2005 Directors Plan, unless otherwise provided in a written agreement between Hollis-Eden or any affiliate and the holder of the stock award, in the event of a corporate transaction (as defined in the 2005 Directors Plan), all outstanding stock awards under the 2005 Directors Plan may be assumed, continued or substituted for by any surviving or acquiring entity (or its parent company). If the surviving or acquiring entity (or its parent company) elects not to assume, continue or substitute for such stock awards, then (i) with respect to any such stock awards that are held by individuals whose continuous service with Hollis-Eden or its affiliates has not terminated prior to the effective date of the corporate transaction, the vesting and exercisability provisions of such stock awards will be accelerated in full and such awards will terminate if not exercised prior to the effective date of the corporate transaction, and (ii) with respect to any stock awards that are held by individuals whose continuous service with Hollis-Eden or its affiliates has terminated prior to the effective date of the corporate transaction, the vesting and exercisability provisions of such stock awards will not be accelerated and such awards will terminate if not exercised prior to the effective date of the corporate transaction (except that any reacquisition or repurchase rights held by Hollis-Eden with respect to such stock awards shall not terminate and may continue to be exercised notwithstanding the corporate transaction). In the event a stock award will terminate if not exercised, our board may provide, in its sole discretion, that the holder of such stock award may not exercise such stock award but will receive a payment equal to the excess of the value of the property the holder would have received upon exercise over any exercise price.

Other stock awards, such as stock purchase awards, may have their repurchase or forfeiture rights assigned to the surviving or acquiring entity (or its parent company) in the corporate transaction. If such repurchase or forfeiture rights are not assigned, then such stock awards will become fully vested.

In addition, each stock award under the 2005 Directors Plan will immediately vest as to all of the shares subject to the stock award upon the occurrence of certain specified change in control transactions, whether or not such stock award is assumed, continued, or substituted by a surviving or acquiring entity in the transaction.

Duration, Termination and Amendment

Our board may suspend or terminate the 2005 Directors Plan without stockholder approval or ratification at any time. No stock awards may be granted under the 2005 Directors Plan while the 2005 Directors Plan is suspended or after it is terminated.

Our board may amend or modify the 2005 Directors Plan at any time. However, no amendment shall be effective unless approved by the stockholders of Hollis-Eden to the extent stockholder approval is necessary to satisfy applicable law.

Federal Income Tax Information

The following is a summary of the principal United States federal income taxation consequences to employees and Hollis-Eden with respect to participation in the 2005 Directors Plan. This summary is not intended to be exhaustive, and does not discuss the income tax laws of any city, state or foreign jurisdiction in which a participant may reside.

Nonstatutory Stock Options. No taxable income is recognized by a participant upon the grant of a nonstatutory stock option. Upon exercise of a nonstatutory stock option, the participant will recognize ordinary income equal to the excess, if any, of the fair market value of the purchased shares on the exercise date over the exercise price paid for those shares. Generally, Hollis-Eden will be entitled (subject to the requirement of reasonableness and the satisfaction of a tax reporting obligation) to a corresponding income tax deduction in the tax year in which such ordinary income is recognized by the participant.

Upon disposition of the stock, the participant will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon acquisition (or vesting) of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one year.

Stock Appreciation Rights. No taxable income is realized upon the receipt of a stock appreciation right. Upon exercise of the stock appreciation right, the fair market value of the shares (or cash in lieu of shares) received is recognized as ordinary income to the participant in the year of such exercise. Generally, with respect to non-employees, Hollis-Eden is not required to withhold from the payment made on exercise of the stock appreciation right or from other compensation an amount based on the ordinary income recognized. Subject to the requirement of reasonableness and the satisfaction of a reporting obligation, Hollis-Eden will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the participant.

Stock Purchase Awards and Restricted Stock Awards. Upon receipt of a stock purchase or restricted stock award, the participant will recognize ordinary income equal to the excess, if any, of the fair market value of the shares on the date of issuance over the purchase price, if any, paid for those shares. Hollis-Eden will be entitled (subject to the requirement of reasonableness and the satisfaction of a tax reporting obligation) to a corresponding income tax deduction in the tax year in which such ordinary income is recognized by the participant.

However, if the shares issued upon the grant of a stock purchase or restricted stock award are unvested and subject to repurchase by Hollis-Eden in the event of the participant s termination of service prior to vesting in those shares, the participant will not recognize any taxable income at the time of issuance, but will have to report as ordinary income, as and when Hollis-Eden s repurchase right lapses, an amount equal to the excess of (i) the fair market value of the shares on the date the repurchase right lapses, over (ii) the purchase price, if any, paid for the shares. The participant may, however, elect under Section 83(b) of the Code to include as ordinary income in the year of issuance an amount equal to the excess of (x) the fair market value of the shares on the date of issuance, over (y) the purchase price, if any, paid for such shares. If the Section 83(b) election is made, the participant will not recognize any additional income as and when the repurchase right lapses.

Upon disposition of the stock acquired upon the receipt of a stock purchase or restricted stock award, the participant will recognize a capital gain or loss equal to the difference between the selling price and the sum of the amount paid for such stock plus any amount recognized as ordinary income upon issuance (or vesting) of the stock. Such gain or loss will be long-term or short-term depending on whether the stock was held for more than one year.

Restricted Stock Unit Awards. No taxable income is recognized upon receipt of a restricted stock unit award. The participant will recognize ordinary income in the year in which the shares subject to that unit are actually issued to the participant in an amount equal to the fair market value of the shares on the date of issuance. Subject to the requirement of reasonableness and the satisfaction of a tax reporting obligation, Hollis-Eden will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the participant at the time the shares are issued. In general, the deduction will be allowed for the taxable year in which such ordinary income is recognized by the participant.

New Plan Benefits

As of the date hereof, no options or other stock awards have been granted on the basis of the share increase for which stockholder approval is sought under this Proposal 3. Accordingly, future benefits or amounts received are not determinable.

The following table presents certain information with respect to options granted under the 2005 Directors   Plan during the year ended December 31, 2007 to our non-employee directors.

Name of Non-Employee Director	Number of Shares Underlying Options Granted
Thomas C. Merigan, Jr., M.D.	75,000

Proposal 4

RATIFICATION OF SELECTION OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of our board of directors has selected BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008 and has further directed that management submit the selection of our independent registered public accounting firm for ratification by our stockholders at the annual meeting. BDO Seidman, LLP has audited our financial statements since our inception. Representatives of BDO Seidman, LLP are expected to be present at the annual meeting, will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Stockholder ratification of the selection of BDO Seidman, LLP as our independent registered public accounting firm is not required by our bylaws or otherwise. However, our board is submitting the selection of BDO Seidman, LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee and our board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company and our stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to ratify the selection of BDO Seidman, LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES

The following table shows the fees incurred for services rendered by BDO Seidman, LLP, our independent registered public accounting firm in 2007 and 2006. All such services were pre-approved by the Audit Committee in accordance with the pre-approval policy described below.

	2007	**2006**
Audit Fees		
Annual financial statements and reviews of quarterly financial statements	$ 157,405(3)	$ 222,810(1)
Review of other documents filed with the SEC	5,000	19,038
Other Fees	13,117(4)	24,562(2)
Subtotal Audit Fees	$ 175,522	$ 266,410
Audit Related Fees	-0-	-0-
Tax Fees	$ 8,000	7,081
Total	$ 183,522	$ 273,491

(1) Approximately $75,553 in audit and quarterly review fees and $147,257 in the audit of internal controls over financial reporting paid to our independent registered public accounting firm.

(2) Comprised of out-of-pocket expenses, administrative fees and board and audit committee meeting attendance.

(3) Approximately $76,500 in audit and quarterly review fees and $80,905 in the audit of internal controls over financial reporting paid to our independent registered public accounting firm.

(4) Comprised of out-of-pocket expenses, administrative fees and board and audit committee meeting attendance.

Pre-Approval Policies

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, internal control services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent registered public accounting firm, BDO Seidman, LLP. The policy generally pre-approves specified services in the defined categories of audit services, audit-related services and tax services up to specified amounts. Pre-approval may also be given as part of the Audit Committee s approval of the scope of the engagement of the independent registered public accounting firm or on an individual explicit case-by-case basis before the independent registered public accounting firm is engaged to provide each service.

During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent registered public accounting firm. The Audit Committee has delegated pre-approval authority to the Chairman of the Audit Committee for those such instances. The Chairman must report on such approvals at the next scheduled Audit Committee meeting.

The Audit Committee has determined that the rendering of the non-audit services by BDO Seidman, LLP is compatible with maintaining the auditor s independence.

All fiscal year 2007 audit and non-audit services provided by the independent registered public accounting firm were pre-approved.

The Board Of Directors Recommends

A Vote In Favor Of Proposal 4.

Executive Officers and Senior Management

The following table sets forth information regarding our Executive Officers and Senior Management.

Name	Age	Position
Richard B. Hollis	55	Chairman of the Board, President and Chief Executive Officer
James M. Frincke, Ph.D.	57	Chief Operating Officer
Robert L. Marsella	55	Senior Vice President, Business Development and Marketing
Christopher L. Reading, Ph.D.	60	Chief Scientific Officer
Dwight R. Stickney, M.D.	65	Chief Medical Officer
Robert W. Weber	57	Interim Chief Financial Officer, Chief Accounting Officer and Vice President, Operations

Richard B. Hollis founded Hollis-Eden in August 1994, and currently serves as our Chairman, President and Chief Executive Officer. Mr. Hollis has over 30 years experience in the health care industry, has a proven track record of launching and marketing important new medical products, and a distinguished career of managing the growth and operations of companies in a variety of senior management positions. Mr. Hollis began his career in product sales with Baxter Travenol (today Baxter International), where he specialized in launching and marketing parenteral, enteral and intravenous solutions to hospitals and nursing homes. Mr. Hollis next joined Imed Corporation, a world leader in drug delivery devices in the 1980s, where he rapidly advanced through numerous sales, marketing and managerial positions. When Imed was acquired by Warner Lambert (today part of Pfizer Inc.), Mr. Hollis was one of two Division Managers at Imed. After leaving Warner Lambert, Mr. Hollis joined Genentech, Inc. as Western Business Unit Manager as the Bay Area biotechnology revolution was unfolding. At Genentech, Mr. Hollis was instrumental in the launch of two blockbuster pharmaceutical products Protropin (human growth hormone) and Activase (tissue plasiminogen activator). Following those successful product launches, Mr. Hollis joined Instromedix, a manufacturer of cardiac monitoring devices, as General Manager and Vice President of Marketing and Sales, and subsequently was named Chief Operating Officer of Bioject Medical, a manufacturer of needleless drug delivery devices. In 1994 he acted on his vision of founding a new pharmaceutical company, Hollis-Eden, which he initially self-funded and successfully brought public in 1997. Mr. Hollis received his B.A. in Psychology from San Francisco State University after studying the humanities while attending St. Mary s College.

James M. Frincke, Ph.D., joined Hollis-Eden as Vice President, Research and Development in 1997. Dr Frincke was promoted to Executive Vice President in 1999, to Chief Scientific Officer in 2001, and to Chief Operating Officer in February 2008. Dr. Frincke joined Hollis-Eden from Prolinx, Inc., where he served as Vice President, Therapeutics Research and Development from 1995 to 1997. During his 24 years in the biotechnology industry, Dr. Frincke has managed major development programs including drugs, biologicals, and cellular and gene therapy products aimed at the treatment of cancer, infectious diseases and organ transplantation. Since joining the biotechnology industry, Dr. Frincke has held vice president, research and development positions in top tier biotechnology companies including Hybritech/Eli Lilly and SyStemix Inc. (acquired by Novartis). In various capacities, he has been responsible for all aspects of pharmaceutical development including early stage research programs, product evaluation, pharmacology, manufacturing, and the management of regulatory and clinical matters for lead product opportunities. Dr. Frincke has authored or co-authored more than 100 scientific articles, abstracts and regulatory filings. Dr. Frincke received his B.S. in Chemistry and his Ph.D. in Chemistry from the University of California, Davis. Dr. Frincke completed his postdoctoral work at the University of California, San Diego.

Robert L. Marsella became Vice President of Business Development and Marketing of Hollis-Eden in 1997, and was promoted to Senior Vice President of Business Development and Marketing in 2004. Mr. Marsella has more than 25 years of medical sales, marketing, and distribution experience. Prior to joining Hollis-Eden, Mr. Marsella acted as a distributor of various cardiac related hospital products for a number of years. In addition, he has also served as Regional Manager for Genentech and launched Activase™, t-pa (a biopharmaceutical drug) in the Western United States. Prior to joining Genentech, Mr. Marsella marketed intravenous infusion pumps for Imed Corporation for four years. Mr. Marsella began his career as a field sales representative and soon after was promoted to regional sales manager for U.S. Surgical Corporation, Auto Suture division. Mr. Marsella received his B.A. degree from San Diego State University.

Christopher L. Reading, Ph.D., became Vice President of Scientific Development in 1999. Dr. Reading was promoted to Executive Vice President, Scientific Development in 2002 and to Chief Scientific Officer in February 2008. Prior to joining Hollis-Eden, Dr. Reading was Vice President of Product and Process Development at Novartis Inc.-owned SyStemix Inc. During this time, he successfully filed three investigational new drug applications (INDs) in the areas of stem cell therapy technology and stem cell gene therapy for HIV/AIDS. Prior to joining SyStemix, Dr. Reading served on the faculty of the M.D. Anderson Cancer Center in Houston for nearly 13 years. His positions there included Associate and Assistant Professor of Medicine in the Departments of Hematology and Tumor Biology. During his career, Dr. Reading has given more than 25 national and international scientific presentations, published more than 50 peer-reviewed journal articles and 15 invited journal articles as well as written nearly 20 book chapters, and received numerous grants and contracts which supported his research activities. Dr. Reading has served on the National Science Foundation Advisory Committee for Small Business Innovative Research Grants (SBIR) as well as on the editorial boards of *Journal of Biological Response Modifiers* and *Molecular Biotherapy*. He holds a number of patents for his work with monoclonal antibodies and devices. Dr. Reading received his Ph.D. in Biochemistry at the University of California at Berkeley and completed postdoctoral study in tumor biology at The University of California at Irvine. He earned his B.A. in biology at the University of California at San Diego.

Dwight R. Stickney, M.D., was appointed Vice President, Medical Affairs in 2003 and was promoted to Chief Medical Officer in February 2008. He joined Hollis-Eden as Medical Director, Oncology in 2000. Dr. Stickney joined Hollis-Eden from the Radiation Oncology Division of Radiological Associates of Sacramento Medical Group, Inc., in Sacramento, California, where he served as an oncologist since 1993. While at Radiological Associates, he served as Chairman of the Radiation Oncology Division from 1997 to 1999 and was a member of the Radiation Study section of the National Institute of Health s Division of Research Grants from 1993 to 1997. He also served as the Director of Radiation Research for Scripps Clinic and Research Foundation in La Jolla, California. Dr. Stickney has taught in medical academia as Associate Professor of Radiation Medicine at Loma Linda University School of Medicine and has served as Director of the International Order of Forresters Cancer Research Laboratory and on the board of directors of the California Division of the American Cancer Society. Earlier in his career, Dr. Stickney held positions with Burroughs Wellcome and the Centers for Disease Control, and academic teaching appointments at The University of California at Los Angeles and The University of California at Riverside. He has also served as a consultant for a number of biotechnology companies on the design and conduct of clinical trials. Dr. Stickney holds a Bachelor of Science in Microbiology, a Masters of Science in Immunology, and a M.D. from Ohio State University. In addition, he is certified as a Diplomat of the American Board of Internal Medicine and Hematology and a Diplomat of the American Board of Radiology, Therapeutic Radiology.

Robert W. Weber joined Hollis-Eden in 1996 and currently serves as Hollis-Eden s Interim Chief Financial Officer and Chief Accounting Officer and was promoted to the additional title of Vice President, Operations in February 2008. Mr. Weber has over twenty-five years of experience in financial management. Mr. Weber has been employed at executive levels by multiple start-up companies and contributed to the success of several turnaround situations. He previously served as Vice President of Finance at Prometheus Products, a subsidiary of Sierra Semiconductor (now PMC Sierra), from 1994 to 1996, and Vice President Finance and Chief Financial Officer for Amercom, a personal computer telecommunications software publishing company, from 1993 to 1994. From February 1988 to August 1993, Mr. Weber served as Vice President Finance and Chief Financial Officer of Instromedix, a company that develops and markets medical devices and software. Mr. Weber brings a broad and expert knowledge of many aspects of financial management. In various capacities, he has been responsible for all aspects of finance and accounting including cost accounting, cash management, filings with the Securities and Exchange Commission, investor relations, private and venture financing, corporate legal matters, acquisitions/divestitures as well as information services and computer automation. Mr. Weber received a B.S. from GMI Institute of Technology (now Kettering University) and an M.B.A. from the Stanford Graduate School of Business.

Security Ownership Of

Certain Beneficial Owners And Management

The following table sets forth certain information regarding the ownership of our common stock as of March 1, 2008 by: (i) each director and nominee for director; (ii) each of the executive officers named in the compensation table; (iii) all of our executive officers and directors as a group; and (iv) all those known to us to be beneficial owners of more than five percent of our common stock. Except as otherwise shown, the address of each stockholder listed is in care of Hollis-Eden at 4435 Eastgate Mall, Suite 400, San Diego, California 92121.

	Beneficial Ownership[1]	
Beneficial Owner	**Number of Shares**	**Percent of Total**
Richard B. Hollis [2]	3,788,299	12.4%
James M. Frincke [3]	536,767	1.8%
Robert L. Marsella [4]	206,134	*
Thomas Charles Merigan [5]	94,612	*
Christopher L. Reading [6]	242,227	*
Salvatore J. Zizza [7]	265,832	*
Dwight R. Stickney [8]	197,538	*
Brendan R. McDonnell [9]	100,418	*
Jerome M. Hauer [10]	57,500	*
Marc R. Sarni [11]	62,500	*
Robert W. Weber [12]	231,370	*
All executive officers and directors as a group (11 persons) [13]	5,783,197	17.9%

* Less than one percent.

(1) This table is based upon information supplied by officers, directors and principal stockholders and Schedules 13D and 13G filed with the Securities and Exchange Commission. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 29,005,305 shares outstanding on March 1, 2008, adjusted as required by rules promulgated by the Securities and Exchange Commission.

(2) Includes 1,497,800 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008 and 2,158 shares held under our 401(k) plan.

(3) Includes 482,841 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008 and 8,334 shares held under our 401(k) plan in his name. Also includes 33,608 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008 and 4,109 shares held under our 401(k) plan in his spouse s name.

(4) Includes 186,115 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008 and 6,269 shares held under our 401(k) plan.

(5) Includes 94,612 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008.

(6) Includes 230,969 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008 and 8,445 shares held under our 401(k) plan.

(7) Includes 134,332 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008. Also includes 1,500 shares held in trust in the name of his children, with respect to which Mr. Zizza disclaims beneficial ownership.

(8) Includes 185,865 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008 and 6,923 shares held under our 401(k) plan.

(9) Includes 90,418 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008.

(10) Includes 57,500 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008.

(11) Includes 57,500 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008.

(12) Includes 199,115 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008 and 8,505 shares held under our 401(k) plan.

(13) Includes 3,250,675 shares subject to options which are presently exercisable or will become exercisable within 60 days of March 1, 2008 and 44,743 shares held under our 401(k) plan.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other of our equity securities. Officers, directors and greater than ten percent stockholders are required by Securities and Exchange Commission regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2007, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with.

Director Compensation

For 2007, each non-employee director received an annual retainer of $10,000, a fee of $2,500 per in-person board meeting attended, and a fee of $1,000 per telephonic committee meeting attended if the duration of the committee meeting is expected to exceed one hour (including preparation time) with the applicable committee members determining at each such meeting whether such compensation is payable. Also, directors who serve as committee chairmen for board committees received an additional annual retainer of $2,500 per year. For 2008, the annual retainer amount for each non-employee director was increased to $15,000 effective January 1st. In April 2006, we entered into an agreement with The Hauer Group under which The Hauer Group provides us strategic consulting advice. Jerome Hauer, one of our directors, is the chief executive officer of The Hauer Group. Mr. Hauer and his wife are the sole owners of The Hauer Group. Under the terms of the agreement, we agreed to pay The Hauer Group $4,950 per month for its consulting services. We terminated our consulting agreement with The Hauer Group in August 2007. We also grant discretionary stock options to non-employee members of our board of directors. In September 2007, Dr. Merigan was granted an additional stock option to purchase up to 75,000 shares of our common stock, at an exercise price of $2.14 per share, under the 2005 Directors Plan. One-third of the total shares subject to this stock option award vest and become exercisable on the first anniversary of the date of grant; thereafter 1/24th of the total remaining shares shall vest in equal monthly installments over the next two years subject to Dr. Merigan s continued service to the Company. In September 2007, our board of directors also approved an amendment to an outstanding fully vested and exercisable stock option held by Dr. Merigan which extended the termination date of the exercise period for the stock option from February 25, 2008 to February 25, 2013 resulting in the deemed cancellation of the stock option and the grant of a replacement stock option under the 2005 Equity Plan. These transactions with Dr. Merigan are described in greater detail in the Certain Transactions section of this proxy statement. In January 2008, in recognition of the tenth anniversary of certain employees and directors continued service to

Hollis-Eden, the compensation committee of our board of directors approved the grant of stock options to these certain employees and directors, including Dr. Merigan and Messrs. McDonnell and Zizza. These stock option grants, covering an aggregate of 45,000 shares of our common stock, were granted under the 2005 Directors Plan with a per share exercise price of $1.62. The shares subject to each of these stock option grants vest and become exercisable in equal monthly installments over a twelve month period beginning on the date of grant subject to continued service to the Company. In January 2008, our five non-employee directors of our board were also granted options under the 2005 Directors Plan covering an aggregate of 75,000 shares of our common stock at an exercise price of $1.62 per share, which was in excess of the fair market value of our common stock on the date of grant of $1.60 (based upon the closing sale price reported on The Nasdaq Global Market). One-third of the total shares subject to each of these stock option awards vest and become exercisable on the first anniversary of the date of grant; thereafter 1/24th of the total remaining shares shall vest in equal monthly installments over the next two years subject to each director s continued service to the Company. Except as noted above, the exercise prices for these options were equal to the fair market value of our common stock on the date of each grant (based on the closing sale prices reported on The Nasdaq Global Market on the date of each grant).

The following table shows for the fiscal year ended December 31, 2007 certain information with respect to the compensation of all non-employee directors of the Company:

DIRECTOR COMPENSATION FOR FISCAL 2007

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
J. Paul Bagley			12,113				12,113
Jerome M. Hauer	17,500		69,996			44,608(3)	132,104
Brendan R. McDonnell	26,000		85,153				111,153
Thomas C. Merigan	20,000		193,282				213,282
Marc R. Sarni	27,500		69,996				97,496
Salvatore J. Zizza	26,000		152,560				178,560

(1) Mr. Bagley resigned from our board of directors effective February 28, 2007.

(2) Amounts are calculated utilizing the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-based Payments . See Note 2, Summary of Accounting Policies, of the financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of the assumptions underlying valuation of our equity awards.

(3) Amounts shown in this column are for consulting services performed by Mr. Hauer apart from his services as a director of the Company, as discussed above.

A director who is also employee of the Company such as Mr. Hollis, our Chairman and Chief Executive Officer, is not additionally compensated for his services as a director. Mr. Hollis compensation is summarized in the Summary Compensation Table appearing under the caption Executive Compensation below.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

This section discusses the principles underlying our executive compensation decisions and the most important factors relevant to an analysis of these decisions. It provides qualitative information regarding the manner and context in which compensation is awarded to and earned by our named executive officers and places in perspective the data presented in the tables and other quantitative information that follows this section. This description of compensation policies and practices applies to our Chief Executive Officer, our Interim Chief Financial Officer, Chief Accounting Officer and Vice President, Operations, our Chief Operating Officer, our Chief Scientific Officer, and our Senior Vice President of Business Development and Marketing, as well as our former Chief Operating Officer and Chief Financial Officer and our former Vice President, Corporate General Counsel. These executive officers are identified in the Summary Compensation Table below and are referred to as our named executive officers.

Executive compensation philosophy and objectives

The Compensation Committee of our board of directors approves, administers and interprets our executive compensation and benefit policies, including our 2005 Equity Incentive Plan. The compensation of our named executive officers is designed to attract highly qualified executives with the ability, skills and potential necessary for Hollis-Eden to achieve its corporate strategies; to encourage those individuals to continually pursue our strategic objectives while effectively managing the risks and challenges inherent to a development stage pharmaceutical/biotechnology company; to reward those individuals adequately and fairly over time; and to retain those individuals who continue to perform at or above our expectations. Our named executive officers compensation has three primary components base salary, a yearly discretionary cash bonus, and long-term incentive compensation in the form of stock options and, in certain circumstances, restricted stock awards. In addition, our named executive officers are provided with benefits that are generally available to all of our salaried employees, including matching contributions, in the form of our common stock, into our named executive officers 401(k) accounts.

Our Compensation Committee views all three components of our executive compensation as related but distinct. Although our Compensation Committee reviews total compensation, we do not believe that significant compensation derived from one component of compensation should negate or reduce compensation from other components. Our Compensation Committee has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and currently paid-out compensation, between cash and non-cash compensation, or among different forms of compensation. This is due in part to the relatively small size of our executive team and the need to tailor each named executive officer s compensation to attract and retain that named executive officer. Our Compensation Committee determines the appropriate level for each compensation component based in part, but not exclusively, on it s view of internal equity and consistency, individual performance, current market conditions, consultation with legal counsel and compensation consultants, a review of corporate accomplishments and setbacks during the prior year, consideration of active projects and future projects, review of expiring equity compensation and the dilutive effect of new equity grants, and other information the Compensation Committee deems relevant, such as the compensation survey data referred to below.

Primary components of executive compensation

The aggregate compensation paid to our named executive officers is composed of three primary components: base salary, a yearly discretionary cash bonus, and long-term incentive compensation in the form of stock options and, in certain circumstances, restricted stock awards. Each component is described below in more detail.

Base salary. Our Compensation Committee fixes the base salary of each of our named executive officers at a level it believes enables us to hire and retain these individuals and to reward our named executive officers for satisfactory individual performance and a satisfactory level of contribution to our overall business goals. In determining the base salaries of our named executive officers, the Compensation Committee also takes into account the base salaries paid to executives in other companies with which we believe we compete for talent, including companies of similar size and stage of development operating in the biotechnology industry, as well as other private and public companies located in our geographical location. For newly hired named executive officers, the base salary is initially established through negotiation at the time the named executive officer is hired, taking into account such named executive officer s qualifications, experience, prior salary and competitive salary information and any unique personal circumstance that motivated the executive to leave his or her prior position and join Hollis-Eden.

Year-to-year adjustments to each named executive officer s base salary, if any, are based upon individual performance for that year, changes in the general level of base salaries of persons in comparable positions within our industry and geographical location, and the average merit salary increase for such year for all of our employees, as well as other factors the Compensation Committee judges to be pertinent during that assessment period. Our Compensation Committee subscribes to certain executive compensation surveys and other databases, such as, most recently, the 2007 Radford Biotechnology Survey and the Radford Biotechnology Edition of the Quarterly Summary of Industry Trends Survey Report for the third quarter and fourth quarter 2007, and reviews them periodically, when making executive hiring decisions and when reviewing executive compensation.

In addition, in late 2004 the Compensation Committee contracted with Mercer Human Resource Consulting, a consulting firm, to review and analyze the compensation packages, including base salary levels, offered by other biotechnology and pharmaceutical companies at that time. Our Compensation Committee realizes that benchmarking the Company s compensation against the compensation earned at comparable companies may not always be appropriate, but believes that engaging in a comparative analysis of the Company s compensation practices is useful at this point in the life cycle of the Company.

For each named executive officer position, the Compensation Committee generally sets its target base compensation between the 50th and 75th percentile of base compensation paid to executive officers holding equivalent positions in the companies contained in the Radford Biotechnology Survey, a national survey of approximately 1,300 positions in 550 biotechnology organizations. For both 2007 and 2008, this represented a projected increase of approximately 4.0% in base salary over the prior year for the Company s employees as a whole. This approach applies to our named executive officers and generally to all positions company-wide, except that individual base compensation may range below or above those percentiles depending upon job function, scope of responsibility, individual performance and experience, skills, contribution, and market factors when, in the judgment of our Compensation Committee, the value of the individual s experience, performance and specific skill set justifies variation. The Compensation Committee has also historically taken into account information from other sources, including input from other independent members of our board of directors and publicly available data relating to the compensation practices and policies of other companies within and outside of our industry. Generally, the salaries for our named executive officers are adjusted effective January 1 of each year.

Annual discretionary cash bonuses. The annual cash bonus payments to our named executive officers are entirely discretionary except that the annual bonus for our Chief Executive Officer, established as part of his employment agreement with us, has a minimum target bonus amount of 50% of his base salary upon his achievement of any of the performance targets mutually agreed to by our board of directors and our Chief Executive Officer annually, in advance of the applicable year.

We utilize annual incentive bonuses to compensate our named executive officers for achieving Company financial and operational goals. These objectives relate generally to Company-wide goals and performance objectives, as well as other strategic factors such as establishment and maintenance of key strategic relationships, development of our drug candidates, identification and advancement of additional drug candidates, advancement of scientific research and to financial factors such as raising capital, improving our results of operations and increasing the price per share of our common stock. Our Compensation Committee believes that it is most appropriate and meaningful at this point in the life cycle of the Company to determine discretionary cash bonus amounts, if any, to our named executive officers, other than our Chief Executive Officer, based upon our management team s performance and achievement of Company-wide goals as a whole rather than solely upon an individual named executive officer s achievement of individual performance objectives and departmental or functional area goals.

Bonus payment recommendations for named executive officers other than our Chief Executive Officer are initiated by the Chief Executive Officer and submitted to the Compensation Committee for review and approval. Bonus payment recommendations for our Chief Executive Officer are initiated by the Compensation Committee.

Long term equity incentive awards. We use stock options and, in certain circumstances, restricted stock awards to reward long-term performance. These options and restricted stock awards are intended to produce the potential for significant value for each named executive officer if our performance is positive and if the named executive officer has an extended tenure with the Company. To conserve our cash resources, we place special emphasis on equity-based incentives to attract, retain and motivate named executive officers as well as other employees.

The Compensation Committee provides our named executive officers with long-term incentive compensation through grants of stock options and restricted stock awards, generally under the 2005 Equity Incentive Plan. We believe that stock options provide our named executive officers with the opportunity to purchase and maintain an equity interest in Hollis-Eden and to share in the potential appreciation of the value of our common stock. We believe that stock options align our named executive officers incentives with that of our stockholders because options have value only if our stock price increases over time. The stock options also utilize vesting periods that encourage named executive officers to continue in their employment with us. However, because of the evolution of regulatory, tax and accounting treatment of equity incentive programs and because it is important to us to retain our named executive officers and key employees, we realize that it is important in some circumstances that we utilize other forms of equity awards as and when we may deem necessary. For example, in 2006, we granted restricted stock awards to our named executive officers, as we believed that this was an additional way to reward them for and motivate them toward superior performance.

The Compensation Committee considers the grant of each option or restricted stock award subjectively, considering factors such as the individual performance of the named executive officer and the anticipated contribution of the named executive officer to the attainment of our long-term strategic performance goals. Long-term incentives granted in prior years are also taken into consideration. Grants are made to all employees when hired based on salary level and position. All employees, including named executive officers, are eligible for subsequent, discretionary grants, which are generally based on either individual or corporate performance as well as the position held within the Company.

All of the option grants made to our named executive officers in 2007 were made at the fair market value of our common stock on the grant date, determined by the closing market value of our common stock as reported on The Nasdaq Global Market on the date of grant, with the exception of certain option grants made to our Chief Executive Officer in August 2007, which have a per share exercise price in excess of the closing market value of our common stock on the date of grant. We do not have any program, plan or obligation that requires us to grant equity compensation to any named executive officers on specified dates. The authority to make equity grants to named executive officers rests with our Compensation Committee, although the Compensation Committee does consider the recommendations of our Chief Executive Officer in setting the compensation of our other named executive officers.

Severance and change in control benefits

Each of Messrs. Hollis and Weber has a provision in his employment agreement providing for certain severance benefits in the event of termination without cause as well as a provision in his employment agreement providing for the acceleration of his then unvested options in the event of termination without cause following a change in control of the Company. These severance and acceleration provisions are described in the Employment, Severance and Change of Control Agreements section below, and certain estimates of these change of control benefits are provided in Potential Payments Upon Termination or Change of Control section below.

Other benefits

Our named executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, vision, group life and disability insurance and our 401(k) plan, in each case on the same basis as our other employees. There were no special benefits or significant perquisites provided to any named executive officer in 2007.

Material tax and accounting implications of executive compensation policies

We account for the equity compensation expense for our employees under the rules of SFAS 123R, which requires us to estimate and record an expense for each award of equity compensation over the service period of the award. Accounting rules also require us to record cash compensation as an expense at the time the obligation is accrued. Unless and until we achieve sustained profitability, the availability to us of a tax deduction for compensation expense is not material to our financial position. We structure discretionary cash bonus compensation so that it is taxable to our employees at the time it becomes available to them. Federal income tax law prohibits publicly held companies from deducting certain compensation paid to a named executive officer that exceeds $1 million during the tax year. To the extent that compensation is based upon the attainment of performance goals set by the Compensation Committee pursuant to plans approved by our stockholders, such compensation is not included in the computation of this limit. Although the Compensation Committee intends, to the extent feasible and where it believes it is in the best interests of the Company and our stockholders, to attempt to qualify executive compensation as tax deductible, it does not intend to permit this tax provision to dictate the Compensation Committee s development and execution of effective compensation plans.

Executive compensation review process

Historically, our Compensation Committee has performed a strategic review of our named executive officers cash compensation and share and option holdings at one or more meetings held during the first quarter of each year, or at the end of the preceding year, in order to determine whether they provide adequate incentives and motivation to our named executive officers and whether they adequately compensate our named executive officers relative to comparable executive officers in other companies.

Our Compensation Committee also considers matters related to individual compensation, such as compensation for new executive hires, as well as high-level strategic issues, such as the efficacy of the Company s compensation strategy, potential modifications to that strategy and new trends, plans or approaches to compensation, at various meetings throughout the year. For example, during the period following the March 2007 cancellation by the United States Department of Health and Human Services of its solicitation for medical countermeasures to treat the effects of acute radiation syndrome, our Compensation Committee met several times to discuss the need for an enhanced retention and incentive program to enable the Company to address the retention and continued motivation of the Company s employees, including our key scientific, technical, marketing and executive personnel.

Compensation Committee meetings typically have included, for all or a portion of each meeting, our Chief Executive Officer and Chief Accounting Officer. For compensation decisions relating to named executive officers other than our Chief Executive Officer, including decisions regarding the grant of equity compensation, the Compensation Committee typically considers the recommendations of our Chief Executive Officer. In the case of our Chief Executive Officer, the evaluation of his performance and adjustments, if any, to his compensation are conducted by the Compensation Committee. Our Chief Executive Officer is not present during the deliberations regarding his compensation.

2007 Executive compensation decisions

2007 Base Salary and Equity Compensation. At its December 2006 meeting, our Compensation Committee performed a review of our named executive officers cash compensation and share and option holdings in order to determine the compensation for our named executive officers for 2007. After completing its review, our Compensation Committee took the following compensation actions at this meeting:

- *2007 Base salaries*: The Compensation Committee determined that, other than the maximum merit salary increase for 2007 for all of our employees of approximately 4%, the base salaries for our named executive officers should not be increased from their 2006 levels. The 2007 base salaries for our named executive officers were reflected in our proxy statement for last year s annual meeting of stockholders and are also reflected in the Summary Compensation Table below.

- *Equity compensation*: The Compensation Committee approved the grant of additional stock options to our named executive officers. The number and value of the shares subject to these December 2006 option grants to our named executive officers were reflected in our proxy statement for last year s annual meeting of stockholders and are also reflected in the Outstanding Equity Awards At Fiscal Year-End table below.

Retention Stock Option Grants. At its August 2007 committee meeting, our Compensation Committee adopted a retention and incentive program consisting of special retention stock option grants to all of the Company s employees, including our named executive officers. The Compensation Committee s decision to approve these special retention stock option grants was the result of a comprehensive review and discussion during a series of eight committee meetings beginning in May 2007 which included the involvement of members of management as well as a compensation consultant from Mercer Human Resource Consulting, a consulting firm who was retained by our Compensation Committee. Upon completion of this review, our Compensation Committee, as well as our full board of directors, determined that it was necessary and appropriate to grant these special retention stock option grants as an incentive and retention tool in light of the significant decline in the Company s stock price since the fall of 2003 as a result of continued, unexpected governmental delays in the procurement process for securing a potential contract under Project Bioshield for the Company s product candidate NEUMUNE® and the subsequent cancellation in March 2007 by the Department of Health and Human Services of its solicitation for medical countermeasures to treat the effects of acute radiation syndrome.

The Compensation Committee determined that it was important to the Company s continued success, and in the best interests of our stockholders, for all of the Company s employees, including the Company s named executive officers, to be awarded additional retention stock option grants. The Compensation Committee recognized that as a result of the significant decline in the Company s stock price, almost all of the stock options held by the Company s employees had exercise prices significantly higher than the market price of the Company s common stock at that time. Specifically, as of March 31, 2007, the weighted average per share exercise price of the Company s then outstanding stock options was $8.91, significantly higher than the closing price of the Company s common stock on that date of $2.53 per share, as reported on The Nasdaq Global Market. In addition, many of our employees, including members of the Company s management team, held stock options that had either recently expired unexercised or were soon scheduled to expire.

The Compensation Committee determined that these out-of-the-money options, coupled with the recently expired or soon to expire stock options held by many of our employees, no longer served as effective performance and retention incentives, and that in order to continue to retain the services of all of the Company s employees, particularly the Company s key scientific, technical, marketing and executive personnel, and to enhance the possibility of long-term stockholder value, additional retention stock option grants to all of the Company s employees were necessary. Our Compensation Committee determined that failure to award additional retention stock option grants could result in the Company being unable to retain existing personnel or identify or hire additional personnel which would affect the Company s ability to meet its needs for highly qualified personnel and materially and adversely affect its corporate goals, business and results of operations.

After completing its review, the Compensation Committee approved the grant of special retention stock options to all of our employees, including our named executive officers, on August 1, 2007. With the exception of certain of the stock option grants to our Chief Executive Officer which have a per share exercise price in excess of the closing price of our common stock on August 1, 2007, these special retention stock option awards have a per share exercise price of $1.66, the closing market price of the Company s common stock on that date, as reported on The Nasdaq Global Market. One-third of the shares subject to each stock option award vest and become exercisable on the first anniversary of the date of grant. Following the first anniversary, the remaining shares subject to each stock option award vest in equal monthly installments over the next two years, subject to continued employment or service to the Company by the option holder. The number and value of the shares subject to the August 2007 option grants to our named executive officers is reflected in the Summary Compensation Table and Grants of Plan-Based Awards tables below.

2007 Discretionary Cash Bonuses

At its January 2008 meeting, our Compensation Committee performed a review of our management team s performance as a whole relative to our Company goals and objectives, as well as the performance of our Chief Executive Officer, in order to determine the 2007 discretionary cash bonus amounts for our named executive officers. In determining the 2007 discretionary cash bonus amounts for our named executive officers, other than our Chief Executive Officer, the Compensation Committee reviewed a performance assessments and compensation recommendation made by our Chief Executive Officer. The performance assessment outlined the extent to which our management team as a whole performed relative to our Company goals and objectives.

After reviewing the Company s overall performance and achievement of annual goals and objectives and the management team s contribution to this performance and achievement, the Compensation Committee determined that for our named executive officers, other than our Chief Executive Officer, a bonus amount equal to 20% of each named executive officer s 2007 base salary had been earned for 2007. These bonus amounts were paid in February 2008 and are reflected in the Summary Compensation Table below.

In determining the 2007 bonus amount for Mr. Hollis, our Chief Executive Officer, the Compensation Committee noted that during 2007 Mr. Hollis led our management team s efforts in selecting and initiating clinical development programs for two next-generation, orally available drug candidates from the Company s Hormonal Signaling Technology Platform TRIOLEX (HE3286), for metabolic and inflammatory disorders, and APOPTONE (HE3235), for hormone sensitive cancers while continuously prioritizing resources in order to maximize short and long-term returns given our limited resources. Under Mr. Hollis leadership, the Company filed and received clearance on four investigational new drug applications with the U.S. Food and Drug Administration for these two drug candidates in 2007 and early 2008. Mr. Hollis was instrumental in overseeing and leading the Company s efforts to initiate the Phase I/II clinical trials now ongoing with TRIOLEX for type 2 diabetes and ulcerative colitis, as well as the additional Phase I/II clinical trials planned to commence in 2008 with TRIOLEX for rheumatoid arthritis and with APOPTONE for prostate cancer. As a result, the Company made significant progress in 2007 in advancing our development programs for metabolic disorders, diseases of inflammation and cancer with our leading drug candidates TRIOLEX and APOPTONE. Our Compensation Committee also recognized Mr. Hollis significant contributions in defining and maintaining our corporate culture and collegial, inclusive team-building work environment. After reviewing Mr. Hollis achievement of individual performance objectives, the terms of his employment agreement, as well the Company s overall performance, the Compensation Committee determined that a bonus amount of $266,240 (approximately 50% of Mr. Hollis 2007 base salary) was merited. Mr. Hollis 2007 bonus was paid in February 2008 and is reflected in the Summary Compensation Table below.

2008 Base Salary and Equity Compensation. At its January 2008 meeting, our Compensation Committee also performed a review of our named executive officers cash compensation and share and option holdings in order to determine the compensation for our named executive officers for 2008. After completing its review, our Compensation Committee took the following compensation actions at this meeting:

2008 Base salaries: Except with respect to Dr. Frincke and Messrs. Weber and Marsella, the Compensation Committee determined that, other than increases consistent with the maximum merit salary increase for 2008 for all of our employees of 4%, the base salaries for our named executive officers should not be increased from their 2007 levels. After completing its review of relevant compensation data, particularly the compensation information contained in the 2008 Radford Biotechnology Survey for executives holding equivalent positions in the companies contained in the survey, the Compensation Committee determined that Dr. Frincke, Mr. Weber and Mr. Marsella should receive an additional $14,581, $13,272 and $8,534 increase in base salary, respectively, in addition to the maximum 4% merit increase for all of our employees as a competitive market adjustment due to an expansion, in each case, of their respective responsibilities within the Company. The 2008 base salaries for our named executive officers as established by our Compensation Committee are as follows:

Executive Officer	**2008 Base Salary**	
Richard B. Hollis Chairman of the Board, President and Chief Executive Officer	$	553,779
James M. Frincke, Ph.D. Chief Operating Officer	$	325,000
Robert W. Weber Interim Chief Financial Officer, Chief Accounting Officer and Vice President, Operations	$	235,000
Robert L. Marsella, Senior Vice President, Business Development and Marketing	$	248,000
Christopher L. Reading, Ph.D. Chief Scientific Officer	$	270,508

Equity compensation: The Compensation Committee approved the grant of additional stock options to our named executive officers at its January 2008 meeting. These stock option grants have a per share exercise price of $1.62, the closing market price of the Company s common stock on January 17, 2008, as reported on The Nasdaq Global Market. One-quarter of the shares subject to each stock option award vest and become exercisable on the first anniversary of the date of grant. Following the first anniversary, the remaining shares subject to each stock option award vest in equal monthly installments over the next three years, subject to continued employment or service to the Company by the option holder. The number and value of the shares subject to these January 2008 option grants to our named executive officers is reflected in the Summary Compensation Table and Grants of Plan-Based Awards tables below.

Tenth Anniversary Stock Option Grants: In recognition of the tenth anniversary of certain employees and directors continued service to Hollis-Eden, the Compensation Committee approved the grant of stock options to these certain employees, including Dr. Frincke and Messrs. Weber and Marsella. These stock option grants have a per share exercise price of $1.62, the closing market price of the Company s common stock on January 17, 2008, as reported on The Nasdaq Global Market. The shares subject to each of these stock option grants vest and become exercisable in equal monthly installments over a twelve month period beginning on the date of grant subject to continued employment or service to the Company by the option holder. The number and value of the shares subject to these option grants to Dr. Frincke and Messrs. Weber and Marsella is reflected in the Summary Compensation Table and Grants of Plan-Based Awards tables below.

Serving Humanity Stock Option Grants: As part of our annual Serving Humanity awards banquet, the Compensation Committee approved the grant of stock options to certain employees who were recognized for their special contributions to Hollis-Eden during 2007. Among the employees who received stock option grants were Dr. Frincke and Mr. Weber. These stock option grants have a per share exercise price of $1.62, the closing market price of the Company s common stock on January 17, 2008, as reported on The Nasdaq Global Market. The shares subject to each of these stock option grants are immediately vested and exercisable. The number and value of the shares subject to these option grants to Dr. Frincke and Mr. Weber is reflected in the Summary Compensation Table and Grants of Plan-Based Awards tables below.

Amendment of Mr. Weber s Existing Stock Option Grant: The Compensation Committee also approved the extension of the expiration date of the exercise period for an existing stock option granted to Mr. Weber. In February 2003, Mr. Weber was granted a fully vested and exercisable stock option to purchase a total of 40,000 shares of our common stock with a per share exercise price of $2.25 with a five year exercise period expiring February 25, 2008. The Compensation Committee determined that it was appropriate and in the best interests of the Company and our stockholders to amend Mr. Weber s existing stock option in order to extend the expiration date of the stock option s exercise period for the remaining 30,350 shares underlying the stock option from February 25, 2008 to February 25, 2013. The closing market price of the Company s common stock on January 17, 2008, as reported on The Nasdaq Global Market, was $1.62, lower than the $2.25 per share exercise price of Mr. Weber s existing stock option. The number and value of the shares subject to this option grant to Mr. Weber is reflected in the Summary Compensation Table and Grants of Plan-Based Awards tables below.

Summary Compensation Table

The following table shows for the fiscal years ended December 31, 2006 and 2007, compensation awarded to or paid to, or earned by, our Chief Executive Officer, our Chief Financial Officer and our three other most highly compensated executive officers in 2007, and two other persons that served as our Chief Operating Officer and Chief Financial Officer and our Vice President, Corporate General Counsel, respectively, during 2007 (the Named Executive Officers).

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)[1]	Option Awards ($)[1]	All Other Compensation ($)[2]	Total ($)
Richard B. Hollis	2006	$ 512,000	$ 385,000	$ 32,818	$ 817,138	$ 936	$ 1,747,892
Chairman of the Board and Chief Executive Officer	2007	$ 532,480	$ 266,240	$ 40,669	$ 915,999	$ 19,685[3]	$ 2,501,333
Daniel D. Burgess	2006	$ 330,050	$ 66,010	$ 12,307	$ 257,117	$ 7,500	$ 672,984
Former Chief Financial Officer and Chief Operating Officer [5]	2007	$ 217,393		$ 4,539	$ 73,530	$ 6,938	$ 302,400
Dr. James M. Frincke	2006	$ 287,000	$ 57,400	$ 12,307	$ 326,738	$ 12,875[4]	$ 696,320
Chief Operating Officer	2007	$ 298,480	$ 59,696	$ 15,251	$ 361,287	$ 7,707	$ 742,421
Eric J. Loumeau	2006	$ 261,375	$ 52,275	$ 5,130	$ 127,683	$ 7,129	$ 453,592
Former Vice President, Corporate General Counsel [6]	2007	$ 167,106		$ 1,891	$ 43,327	$ 5,376	$ 217,700
Dr. Christopher L. Reading	2006	$ 250,100	$ 50,020	$ 5,130	$ 156,334	$ 7,161	$ 468,745
Chief Scientific Officer	2007	$ 260,104	$ 52,021	$ 6,354	$ 164,664	$ 7,584	$ 490,727
Robert L. Marsella	2006	$ 221,400	$ 44,280	$ 5,130	$ 100,724	$ 7,645	$ 379,179
Senior Vice President, Business Development and Marketing	2007	$ 230,256	$ 46,051	$ 6,354	$ 151,540	$ 5,269	$ 439,470
Robert W. Weber	2006	$ 205,000	$ 41,000	$ 5,130	$ 100,714	$ 8,980	$ 360,824
Interim Chief Financial Officer, Chief Accounting Officer and Vice President, Operations	2007	$ 213,200	$ 42,640	$ 6,354	$ 148,296	$ 15,631[7]	$ 426,121

(1) Amounts are calculated utilizing the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-based Payments . See Note 2 Summary of Accounting Policies of the financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 for a discussion of the assumptions underlying valuation of our equity awards.

(2) Amounts shown in this column include company match for each Named Executive Officer s contributions to the Company s 401(k) plan as well as life insurance premiums paid on behalf of each Named Executive Officer.

(3) The amount shown includes a pay out of $18,688 in accrued paid time off to Mr. Hollis.

(4) The amount shown includes a pay out of $5,519 in accrued paid time off to Dr. Frincke.

(5) Mr. Burgess resigned from the Company effective May 7, 2007.

(6) Mr. Loumeau resigned from the Company effective May 25, 2007.

(7) The amount shown includes a pay out of $8,200 in accrued paid time off to Mr. Weber.

Employment, Severance and Change of Control Agreements

The following narrative is a description of each employment agreement we have with a Named Executive Officer.

We have entered into an employment agreement with Mr. Hollis, our Chairman of the Board, President and Chief Executive Officer, which provides that if Mr. Hollis employment is terminated without cause, Mr. Hollis shall be entitled to the following: (i) base salary through the date of termination, (ii) annual base salary in effect at the time of termination times five, (iii) an amount equal to the prior calendar year s bonus awarded to Mr. Hollis times five, (iv) immediate vesting of all unvested stock options to purchase shares of our common stock held by Mr. Hollis, and the continuation of the exercise period of all stock options held by Mr. Hollis until the final expiration of the original terms of such stock options, and (v) continued receipt for three years of all employee benefit plans and programs in which Mr. Hollis and his family were entitled to participate immediately prior to the date of termination. The employment agreement further provides that if Mr. Hollis employment is terminated within one year of the occurrence of a change in control of Hollis-Eden, upon execution by Mr. Hollis of a waiver and release of claims, the new company shall pay Mr. Hollis the same benefits described in (i) through (v) above. In addition, the agreement provides that Mr. Hollis has the right, in specified circumstances, to require us to nominate him and two of his designees for election to our board. If this provision is violated, Mr. Hollis will be entitled to the same benefits described in (i) through (v) above. To date, however, Mr. Hollis has not exercised this right.

We have entered into an employment agreement with Mr. Weber, our Interim Chief Financial Officer, Chief Accounting Officer and Vice President, Operations, which provides that if Mr. Weber s employment is terminated without cause, Mr. Weber shall be entitled to the following: (i) base salary through date of termination, (ii) one year of severance pay at Mr. Weber s highest salary, (iii) an amount equal to the prior calendar year s bonus awarded to Mr. Weber, (iv) immediate vesting of all unvested stock options held by Mr. Weber, and the continuation of the exercise period of all stock options held by Mr. Weber until the final expiration of the original term of such stock options, and (v) continued receipt for one year of all employee benefit plans and programs in which Mr. Weber and his family were entitled to participate immediately prior to the date of termination. Under Mr. Weber s employment agreement, voluntary termination due to a change in duties or a change of control of the company will be considered the same as termination for any reason other than cause and shall entitle Mr. Weber to receive the benefits described in (i) through (v) above.

Grants of Plan-Based Awards

The following table shows for the fiscal year ended December 31, 2007, certain information regarding grants of plan-based awards to the Named Executive Officers:

Grants of Plan-Based Awards in Fiscal 2007

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(1)
Richard B. Hollis	August 1, 2007	200,000	1.66	222,506
	August 1, 2007	100,000	3.00	95,311
	August 1, 2007	100,000	4.00	86,955
	August 1, 2007	100,000	5.00	80,328
Daniel D. Burgess (2)				
James M. Frincke	August 1, 2007	200,000	1.66	222,506
Eric J. Loumeau (3)				
Christopher L. Reading	August 1, 2007	100,000	1.66	111,253
Robert L. Marsella	August 1, 2007	120,000	1.66	133,503
Robert W. Weber	August 1, 2007	100,000	1.66	111,253

(1) Amounts are calculated utilizing the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-based Payments . See Note 2 Summary of Accounting Policies of the financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 for a discussion of the assumptions underlying valuation of our equity awards.

(2) Mr. Burgess resigned from the Company effective May 7, 2007.

(3) Mr. Loumeau resigned from the Company effective May 25, 2007.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END.

The following table shows for the fiscal year ended December 31, 2007, certain information regarding outstanding equity awards at fiscal year end for the Named Executive Officers.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2007

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(6)
Richard B. Hollis	80,000		$ 13.25	12/31/2008(1)	15,000(5)	$ 23,550
	126,667		10.56	11/14/2009(2)		
	300,000		16.63	12/31/2008(2)		
	160,000		6.50	12/09/2010(3)		
	160,000		9.91	01/08/2012(3)		
	80,000		9.91	01/08/2012(1)		
	80,000		12.25	06/24/2013(1)		
	160,000		5.29	02/25/2013(3)		
	156,667	3,333	14.97	01/15/2014(3)		
	88,400	36,400	10.75	02/10/2015(3)		
	33,000	39,000	6.20	02/12/2016(3)		
	40,000	120,000	5.43	12/10/2016(3)		
		200,000	1.66	07/31/2017(2)		
		100,000	3.00	07/31/2017(2)		
		100,000	4.00	07/31/2017(2)		
		100,000	5.00	07/31/2017(2)		
Daniel D. Burgess (7)						
James M. Frincke	25,000		13.25	09/27/2008(2)	5,625(5)	8,831
	64,166		10.56	11/14/2009(2)		
	65,000		6.50	12/09/2010(3)		
	45,000		6.50	12/09/2010(2)		
	60,000		9.91	01/08/2012(3)		
	60,000		5.29	02/25/2013(3)		
	10,000		12.25	06/24/2013(4)		
	62,667	1,333	14.97	01/15/2014(3)		
	33,150	13,650	10.75	02/10/2015(3)		
	12,375	14,625	6.20	02/12/2016(3)		
	15,000	45,000	5.43	12/10/2016(3)		
		200,000	1.66	07/31/2017(2)		

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)[6]
Eric J. Loumeau [8]						
Christopher L. Reading	45,000		16.63	01/03/2009[2]	2,344[5]	3,680
	15,417		10.56	11/14/2009[2]		
	21,354		6.50	12/09/2010[3]		
	40,000		9.91	01/08/2012[3]		
	13,333		9.91	01/08/2012[1]		
	23,958	1,042	5.29	02/25/2013[3]		
	10,000		12.25	06/24/2013[4]		
	30,354	646	14.97	01/15/2014[3]		
	13,813	5,687	10.75	02/10/2015[3]		
	5,157	6,093	6.20	02/12/2016[3]		
	6,250	18,750	5.43	12/10/2016[3]		
		100,000	1.66	07/31/2017[2]		
Robert L. Marsella	10,000		13.25	09/27/2008[2]	2,344[5]	3,680
	10,000		10.56	11/14/2009[2]		
	25,000		6.50	12/09/2010[3]		
	30,000		6.50	12/09/2010[3]		
	25,000		9.91	01/08/2012[3]		
	25,000		5.29	02/25/2013[3]		
	24,479	521	14.97	01/15/2014[3]		
	13,813	5,687	10.75	02/10/2015[3]		
	5,157	6,093	6.20	02/12/2016[3]		
	6,250	18,750	5.43	12/10/2016[3]		
		120,000	1.66	07/31/2017[2]		
Robert W. Weber	15,000		13.25	09/27/2008[2]	2,344[5]	3,680
	20,000		10.56	11/14/2009[2]		
	25,000		6.50	12/09/2010[3]		
	25,000		6.50	12/09/2010[3]		
	25,000		9.91	01/08/2012[3]		
	25,000		5.29	02/25/2013[3]		
	30,350		2.25	02/25/2008[3]		
	24,479	521	14.97	01/15/2014[3]		
	13,813	5,687	10.75	02/10/2015[3]		
	5,157	6,093	6.20	02/12/2016[3]		
	6,250	18,750	5.43	12/10/2016[3]		
		100,000	1.66	07/31/2017[2]		

(1) These grants vested immediately upon date of grant.

(2) These grants vest for 1/3rd of the total number of shares on the first year anniversary of the date of grant; 1/36th of the total shares vest each month thereafter.

(3) These grants vest for 1/4th of the total number of shares on the first year anniversary of the date of grant; 1/48th of the total shares vest each month thereafter.

(4) These grants vest for 1/4th of the total number of shares immediately upon the date of grant; 1/36th of the total shares vest each month thereafter.

(5) These restricted stock awards vest over 4 years with 25% of the total shares vesting on the first anniversary of the date of grant and 12.5% of the remaining shares vesting each six-month period thereafter.

(6) The amounts reflected in this column represents the closing price of a share of our common stock on December 31, 2007 ($1.57) multiplied by the number of shares that have not vested.

(7) Mr. Burgess resigned from the Company effective May 7, 2007. All of Mr. Burgess grants expired unexercised and were forfeited.

(8) Mr. Loumeau resigned from the Company effective May 25, 2007. All of Mr. Loumeau s grants expired unexercised and were forfeited.

Option Exercises And Stock Vested

The following table provides information regarding the number of shares of common stock acquired and the value realized pursuant to the exercise of stock options, and all stock awards vested and the value realized pursuant to the vesting of stock awards, during 2007 by each of our Named Executive Officers.

	Option Awards		Stock Awards	
Named Executive Officer	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise[1] ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting[2] ($)**
Richard B. Hollis			9,000	38,310
Daniel D. Burgess [3]			2,250	12,600
James M. Frincke			3,375	14,366
Eric J. Loumeau [4]			937	5,247
Christopher L. Reading			1,406	5,984
Robert L. Marsella			1,406	5,984
Robert W. Weber	9,000	28,023	1,406	5,984

(1) The value realized on exercise is equal to the difference between the option exercise price and the closing price of our common stock on the date of exercise, multiplied by the number of shares subject to the option, without taking into account any taxes that may be payable in connection with the transactions.

(2) The value realized on vesting is equal to the closing price of our common stock on the date of vesting, multiplied by the number of shares that vested.

(3) Mr. Burgess resigned from the Company effective May 7, 2007.

(4) Mr. Loumeau resigned from the Company effective May 25, 2007.

Pension Benefits

None of our Named Executive Officers participates in or has account balances in qualified or non-qualified defined benefit plans sponsored by us. The Compensation Committee may elect to adopt qualified or non-qualified defined benefit plans in the future if the Compensation Committee determines that doing so is in our best interests.

Nonqualified Deferred Compensation

None of our Named Executive Officers participate in or have account balances in non-qualified defined contribution plans or other deferred compensation plans maintained by us. The Compensation Committee may elect to provide our officers and other employees with non-qualified defined contribution or other nonqualified deferred compensation benefits in the future if the Compensation Committee determines that doing so is in our best interests.

Potential Payments Upon Termination Or Change-In-Control

The summary below sets forth potential payments payable to certain of our current Named Executive Officers upon termination of employment or a change in control of the Company. The Compensation Committee may in its discretion, and with the approval of the applicable Named Executive Officer, revise, amend or add to these benefits in the future if it deems doing so advisable and in our best interests. Richard Hollis, our Chairman, President and Chief Executive Officer, and Robert W. Weber, our Interim Chief Financial Officer, Chief Accounting Officer and Vice President, Operations, are the only Named Executive Officers who have any severance and/or change of control arrangements.

For Mr. Hollis, if he is terminated without cause or if he terminates his employment for sufficient reason, upon execution by Mr. Hollis of a waiver and release of claims, he shall be entitled to the following: (i) base salary through the date of termination, (ii) annual base salary in effect at the time of termination times five, (iii) an amount equal to the prior calendar year s bonus awarded to Mr. Hollis times five, (iv) immediate vesting of all unvested stock options to purchase shares of our common stock held by Mr. Hollis, and the continuation of the exercise period of all stock options held by Mr. Hollis until the final expiration of the original terms of such stock options, and (v) continued receipt for three years of all employee benefit plans and programs in which Mr. Hollis and his family were entitled to participate immediately prior to the date of termination. Currently, Mr. Hollis annual base salary is $553,779 and his 2007 bonus amount was $266,240. Assuming that Mr. Hollis was terminated effective December 31, 2007, he would be entitled to receive a lump sum of $4,100,095 within thirty days of such termination, representing the benefits described in (i) and (ii) above, the acceleration of the vesting of 698,733 shares of common stock subject to outstanding unvested stock options as of December 31, 2007 with an aggregate value equal to $0 (based on the spread between the closing price of our common stock on December 31, 2007 of $1.57 and the exercise price of the stock options) and continued employee benefits for he and his family for three years following such termination at an estimated aggregate cost of $67,500. In addition, Mr. Hollis employment agreement provides that if Mr. Hollis employment is terminated within one year of the occurrence of a change in control of the Company, upon execution by Mr. Hollis of a waiver and release of claims, the successor company shall pay Mr. Hollis the same benefits described in (i) through (v) above. Under Mr. Hollis employment agreement, sufficient reason means any one or more of the following events: (i) the occurrence of a change in control of the Company, (ii) the failure by the Company to comply with any material provision of Mr. Hollis employment agreement and such failure has continued for a period of ten days after notice of such failure has been given by Mr. Hollis to the Company, (iii) the assignment to Mr. Hollis of any duties materially inconsistent with his status as the Chairman, President and Chief Executive Officer of the Company or the reduction of Mr. Hollis authority as provided hereunder, and (iv) the reduction by the Company in Mr. Hollis base salary or as the same may be increased from time to time under the terms of the employment agreement, except for across-the-board salary reductions approved by 66-2/3% of our board of directors similarly affecting all management personnel of the Company; provided, however, that in no event shall Mr. Hollis base salary be reduced to an amount equal to less than 75% of the highest base salary at any time in effect during Mr. Hollis employment by the Company. Under Mr. Hollis employment agreement, a change of control of the Company shall be deemed to have occurred if and when: (i) any person or entity or group of persons and/or entities acting in concert shall acquire, directly or indirectly, beneficial ownership of more than twenty percent (20%) of the outstanding shares of voting stock of the Company or other securities of the Company convertible (after giving effect to such conversion) into more than twenty percent (20%) of the outstanding shares of voting stock of the Company, (ii) the Company is a participant in a merger or consolidation in which the Company does not survive as an independent company, (iii) the business or businesses of the Company for which Mr. Hollis services are principally performed are disposed of by the Company pursuant to a partial or complete liquidation of the Company, a sale of assets or otherwise or (iv) during any period of two consecutive years during the term of Mr. Hollis employment hereunder, individuals who at the beginning of such period constitute the board of directors of the Company cease for any reason to constitute at least a majority thereof, unless the election of each director who was not a director at the beginning of such period has been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of the period.

Under Mr. Weber s employment agreement, if Mr. Weber s employment is terminated without cause, Mr. Weber shall be entitled to the following: (i) base salary through date of termination, (ii) one year of severance pay at Mr. Weber s highest salary, (iii) an amount equal to the prior calendar year s bonus awarded to Mr. Weber, (iv) immediate vesting of all unvested stock options held by Mr. Weber, and the continuation of the exercise period of all stock options held by Mr. Weber until the final expiration of the original term of such stock options, and (v) continued receipt for one year of all employee benefit plans and programs in which Mr. Weber and his family were entitled to participate immediately prior to the date of termination. Currently, Mr. Weber s annual base salary is $235,000. Assuming that Mr. Weber was terminated effective December 31, 2007, he would be entitled to receive an amount equal to his base salary of $235,000, an amount equal to his 2007 discretionary cash bonus of $42,640, the acceleration of the vesting of 131,051 shares of common stock subject to outstanding unvested stock options as of December 31, 2007 with an aggregate value equal to $0 (based on the spread between the closing price of our common stock on December 31, 2007 of $1.57 and the exercise price of the stock options) and continued employee benefits for he and his family for one year following such termination at an estimated aggregate cost of $14,300. Under Mr. Weber s employment agreement, voluntary termination due to change in duties or change of control of the company will be considered the same as termination for any reason other than cause and shall entitle Mr. Weber to receive the same benefits described above.

Policies And Procedures With Respect To Related Party Transactions

In December 2007, we adopted a written Related-Person Transactions Policy that sets forth our policies and procedures regarding the identification, review, consideration and approval or ratification of related-persons transactions. For purposes of our policy only, a related-person transaction is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which Hollis-Eden and any related person are participants involving an amount that exceeds $120,000. Transactions involving compensation for services provided to us as an employee or director by a related person are not covered by this policy. A related person is any executive officer, director, or more than 5% stockholder of Hollis-Eden, including any of their immediate family members, and any entity owned or controlled by such persons.

Under the policy, where a transaction has been identified as a related-person transaction, management must present information regarding the proposed related-person transaction to the Audit Committee (or, where Audit Committee approval would be inappropriate, to another independent body of the board) for consideration and approval or ratification and provide all information available to it which is material to the review and consideration of such transaction. In considering related-person transactions, the Audit Committee takes into account the relevant available facts and circumstances including, but not limited to (a) the risks, costs and benefits to Hollis-Eden, (b) the impact on a director s independence in the event the related person is a director, immediate family member of a director or an entity with which a director is affiliated, (c) the terms of the transaction, (d) the availability of other sources for comparable services or products and (e) the terms available to or from, as the case may be, unrelated third parties or to or from employees generally. In the event a director has an interest in the proposed transaction, the director must recuse himself or herself from the deliberations and approval. The policy requires that, in determining whether to approve or ratify a related-person transaction, the Audit Committee look at, in light of known circumstances, whether the transaction is, or is not inconsistent with, the best interests of Hollis-Eden and its stockholders, as the Audit Committee determines in the good faith exercise of its discretion.

Certain Transactions

Dr. James Frincke s wife serves as our director of accounting. She earned $116,160 in base salary and bonus during fiscal year 2007 and received a stock option grant for 10,000 shares of our common stock at an exercise price of $1.66 per share and a second grant in January 2008 for 3,100 shares at an exercise price of $1.62 per share.

In September 2007, Dr. Merigan, one of our directors, was granted an additional stock option to purchase up to 75,000 shares of our common stock, at an exercise price of $2.14 per share, under the 2005 Directors Plan. One-third of the total shares subject to this stock option award vest and become exercisable on the first anniversary of the date of grant; thereafter 1/24th of the total remaining shares shall vest in equal monthly installments over the next two years subject to Dr. Merigan s continued service to the Company. In addition, in September 2007, the board of directors approved an extension of the expiration date of the exercise period for an existing fully vested and exercisable stock option granted to Dr. Merigan, from February 25, 2008 to February 25, 2013, resulting in the deemed cancellation of the original stock option and the grant of a replacement stock option under the 2005 Equity Plan. Dr. Merigan was originally granted this option grant to purchase a total of 125,000 shares of our common stock with an exercise price of $2.25 per share in March 1996, for consulting services. In February 2003, this stock option grant expired and we issued a new stock option grant to Dr. Merigan to purchase a total of 125,000 shares of our common stock with an exercise price below market of $2.25. An accounting charge was booked by the Company at the time of the grant of this option grant.

In February 2003, Mr. Weber, our Interim Chief Financial Officer, Chief Accounting Officer and Vice President, Operations was granted a fully vested and exercisable stock option to purchase a total of 40,000 shares of our common stock with an exercise price of $2.25 per share with a five year exercise period expiring February 25, 2008. In January 2008, the compensation committee of our board of directors approved the extension of the expiration date of the exercise period for the remaining 30,350 shares underlying this stock option from February 25, 2008 to February 25, 2013 resulting in the deemed cancellation of the original stock option and the grant of a replacement stock option.

Householding Of Proxy Materials

The Securities and Exchange Commission has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are our stockholders will be householding our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from one or more the affected stockholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, please notify your broker. Stockholders wishing to receive a separate proxy statement and annual report in the future may also direct such a request to our Chief Accounting Officer, either in a written request sent to 4435 Eastgate Mall, Suite 400, San Diego, California 92121 or by telephone at (858) 587-9333.

Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker.

Other Matters

Our board of directors knows of no other matters that will be presented for consideration at the annual meeting. If any other matters are properly brought before the meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors

Richard B. Hollis

Chairman of the Board, President and

Chief Executive Officer

April 25, 2008

A COPY OF OUR ANNUAL REPORT TO THE SECURITIES AND EXCHANGE COMMISSION ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007 IS AVAILABLE WITHOUT CHARGE UPON WRITTEN REQUEST TO: CORPORATE SECRETARY, HOLLIS-EDEN PHARMACEUTICALS, INC., 4435 EASTGATE MALL, SUITE 400, SAN DIEGO, CALIFORNIA 92121.

Appendix A

HOLLIS-EDEN PHARMACEUTICALS, INC.

2005 EQUITY INCENTIVE PLAN

AS AMENDED ON MARCH 28, 2008

1. GENERAL.

(a) **Successor and Continuation of Prior Plan.** The Plan is intended as the successor to and continuation of the Hollis-Eden Pharmaceuticals, Inc. 1997 Incentive Stock Option Plan (the ***Prior Plan***). Following the Effective Date of this Plan, no additional stock awards shall be granted under the Prior Plan. Any shares remaining available for issuance pursuant to the exercise of options or settlement of stock awards under the Prior Plan shall be added to the share reserve of this Plan and available for issuance pursuant to Stock Awards granted hereunder. All outstanding stock awards granted under the Prior Plan shall remain subject to the terms of the Prior Plan, except that the Board may elect to extend one or more of the features of the Plan to stock awards granted under the Prior Plan. Any shares subject to outstanding stock awards granted under the Prior Plan that expire or terminate for any reason prior to exercise or settlement shall be added to the share reserve of this Plan and become available for issuance pursuant to Stock Awards granted hereunder. All Stock Awards granted subsequent to the Effective Date of this Plan shall be subject to the terms of this Plan.

(b) **Eligible Stock Award Recipients.** The persons eligible to receive Stock Awards are Employees, Directors and Consultants.

(c) **Available Stock Awards.** The Plan provides for the grant of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Purchase Awards, (iv) Restricted Stock Awards, (v) Stock Appreciation Rights, (vi) Restricted Stock Unit Awards, and (vii) Other Stock Awards.

(d) **General Purpose.** The Company, by means of the Plan, seeks to secure and retain the services of the group of persons eligible to receive Stock Awards as set forth in Section 1(a), to provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate and to provide a means by which such eligible recipients may be given an opportunity to benefit from increases in value of the Common Stock through the granting of Stock Awards.

2. DEFINITIONS.

As used in the Plan, the following definitions shall apply to the capitalized terms indicated below:

(a) ***Affiliate*** means (i) any corporation (other than the Company) in an unbroken ownership chain of corporations ending with the Company, provided each corporation in the unbroken ownership chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such ownership chain, and (ii) any corporation (other than the Company) in an unbroken ownership chain of corporations beginning with the Company, provided each corporation (other than the last corporation) in the unbroken ownership chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such ownership chain. The Board shall have the authority to determine (x) the time or times at which the ownership tests are applied, and (y) whether Affiliate includes entities other than corporations within the foregoing definition.

(b) ***Board*** means the Board of Directors of the Company.

(c) ***Capitalization Adjustment*** has the meaning ascribed to that term in Section 11(a).

(d) ***Cause*** means with respect to a Participant, the occurrence of any of the following: (i) such Participant s commission of any felony or any crime involving fraud, dishonesty or moral turpitude under the laws of the United States or any state thereof; (ii) such Participant s attempted commission of, or participation in, a fraud or act of dishonesty against the Company; (iii) such Participant s intentional, material violation of any contract or agreement between the Participant and the Company or of any statutory duty owed to the Company; (iv) such Participant s unauthorized use or disclosure of the Company s confidential information or trade secrets; or (v) such Participant s gross misconduct. The determination that a termination of the Participant s Continuous Service is either for Cause or without Cause shall be made by the Company in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated by reason of dismissal without Cause for the purposes of outstanding Stock Awards held by such Participant shall have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(e) ***Change in Control*** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing forty percent (40%) or more of the combined voting power of the Company s then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control shall not be deemed to occur (A) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person from the Company in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities or (B) solely because the level of Ownership held by any Exchange Act Person (the ***Subject Person***) exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control shall be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto, as such, do not Own, directly or indirectly, either (A) outstanding voting securities representing more than sixty percent (60%) of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than sixty percent (60%) of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction;

(iii) the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company shall otherwise occur;

(iv) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition; or

(v) individuals who, on the date this Plan is adopted by the Board, are members of the Board (the ***Incumbent Board***) cease for any reason to constitute at least a majority of the members of the Board;

provided, however, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member shall, for purposes of this Plan, be considered as a member of the Incumbent Board.

The term Change in Control shall not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company.

Notwithstanding the foregoing or any other provision of this Plan, the definition of Change in Control (or any analogous term) in an individual written agreement between the Company or any Affiliate and the Participant shall supersede the foregoing definition with respect to Stock Awards subject to such agreement; *provided, however,* that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition shall apply.

(f) ***Code*** means the Internal Revenue Code of 1986, as amended.

(g) ***Committee*** means a committee of one (1) or more Directors to whom authority has been delegated by the Board in accordance with Section 3(c).

(h) ***Common Stock*** means the common stock of the Company.

(i) ***Company*** means Hollis-Eden Pharmaceuticals, Inc., a Delaware corporation.

(j) ***Consultant*** means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, shall not cause a Director to be considered a Consultant for purposes of the Plan.

(k) ***Continuous Service*** means that the Participant s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant s service with the Company or an Affiliate, shall not terminate a Participant s Continuous Service. For example, a change in status from an employee of the Company to a consultant to an Affiliate or to a Director shall not constitute an interruption of Continuous Service. To the extent permitted by law, the Board or the chief executive officer of the Company, in that party s sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave. Notwithstanding the foregoing, a leave of absence shall be treated as Continuous Service for purposes of vesting in a Stock Award only to such extent as may be provided in the Company s leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

(l) ***Corporate Transaction*** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of at least ninety percent (90%) of the outstanding securities of the Company;

(iii) the consummation of a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) the consummation of a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(m) ***Covered Employee*** shall have the meaning provided in Section 162(m)(3) of the Code and the regulations promulgated thereunder.

(n) ***Director*** means a member of the Board.

(o) ***Disability*** means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(p) ***Effective Date*** means the effective date of this Plan document, which is the date that this Plan is first approved by the Company s stockholders.

(q) ***Employee*** means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, shall not cause a Director to be considered an Employee for purposes of the Plan.

(r) ***Entity*** means a corporation, partnership, limited liability company or other entity.

(s) ***Exchange Act*** means the Securities Exchange Act of 1934, a