

DEUTSCHE BANK AKTIENGESELLSCHAFT

Form FWP

August 26, 2014

Term Sheet W32

To underlying supplement No. 1 dated October 1, 2012,

prospectus supplement dated September 28, 2012 and

prospectus dated September 28, 2012

Registration Statement No. 333-184193

Dated August 26, 2014; Rule 433

Deutsche Bank

Structured Deutsche Bank AG

Investments Call Warrants Linked to the S&P 500® Index Expiring September 1*, 2017

General

- The call warrants (the “warrants”) are designed for investors who seek a leveraged return at expiration based on the increase, if any, in the S&P 500® Index (the “Index”). If the Final Level of the Index is less than or equal to the Strike Level, which is 100% of the Initial Level, the warrants will expire worthless and investors will lose their entire investment in the warrants. If the Final Level is greater than the Strike Level, investors will receive a cash payment upon expiration based on the performance of the Index. In this circumstance, investors will still lose some or a significant portion of their initial investment if the level of the Index does not increase sufficiently to offset the Warrant Premium. Any payment on the warrants is subject to the credit of the Issuer.
- The warrants are risky investments. The warrants will be exercised automatically on the Expiration Date, and you do not have the right to exercise your warrants prior to the Expiration Date. You will not be able to purchase the warrants unless you have an options-approved brokerage account. The warrants involve a high degree of risk and are not appropriate for investors who cannot sustain a total loss of their investment. You must be able to understand and bear the risk of an investment in the warrants, and you should be experienced with respect to options and option transactions.
- Unsecured contractual obligations of Deutsche Bank AG expiring September 1*, 2017
- Minimum initial investment of \$9,960.00 or 83 warrants, each with a Notional Amount of \$1,000 (and then in increments of one warrant thereafter), resulting in an aggregate minimum Notional Amount of \$83,000.
- The warrants are expected to price on or about August 29*, 2014 (the “Trade Date”) and are expected to settle on or about September 4*, 2014 (the “Settlement Date”).

Key Terms

Issuer: Deutsche Bank AG, London Branch

Index: The S&P 500® Index (Ticker: SPX)

Issue Price per Warrant: Equal to the Warrant Premium

Warrant:

Warrant Premium: \$120.00 per warrant (equal to 12.00% of the Notional Amount)

Notional Amount: \$1,000 per warrant

Warrant Premium Percentage: 12.00%, equal to the Warrant Premium divided by the Notional Amount

Percentage:

Payment at Expiration: On the Expiration Date, the warrants will be automatically exercised and you will be entitled to receive a cash payment per warrant equal to the Cash Settlement Amount, which could be zero.

Cash Settlement Amount: With respect to each warrant, the Cash Settlement Amount will be calculated as follows:

If the Final Level is greater than the Strike Level,
\$1,000 x Index Strike Return

If the Final Level is less than or equal to the Strike Level, \$0.

If the Final Level is less than or equal to the Strike Level, the Index Strike Return will be negative or zero and the warrants will expire worthless. If the level of the Index does not increase, you will lose your entire investment in the warrants. In addition, if the Final Level is not sufficiently greater than the Strike Level to offset the Warrant Premium, you will lose a portion of your initial investment. In order to receive a positive return on your investment, the

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Final Level must be greater than the Strike Level by a percentage greater than the Warrant Premium Percentage.

Index Strike Return: Calculated as follows:

$$\frac{\text{Final Level} - \text{Strike Level}}{\text{Initial Level}}$$

Initial Level: The closing level of the Index on the Trade Date
 Final Level: The closing level of the Index on the Final Valuation Date
 Strike Level: 100% of the Initial Level
 Trade Date: August 29*, 2014
 Settlement Date: September 4*, 2014
 Final Valuation Date†: August 29*, 2017
 Expiration Date†: September 1*, 2017
 Listing: The warrants will not be listed on any securities exchange.
 CUSIP/ISIN: 25157U408 / US25157U4085

* Expected. In the event that we make any change to the expected Trade Date or Settlement Date, the Final Valuation Date and Expiration Date may be changed so that the stated term of the warrants remains the same.

† Subject to postponement as described under “General Terms of the Warrants — Market Disruption Events” in this term sheet.

Investing in the warrants involves a number of risks, including the risk that the warrants expire worthless and you lose your entire investment. See “Selected Risk Considerations” beginning on page 5 of this term sheet.

The Issuer’s estimated value of the warrants on the Trade Date is approximately \$104.70 to \$109.70 per warrant, which is less than the Issue Price. Please see “Issuer’s Estimated Value of the Warrants” on the following page of this term sheet for additional information.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the warrants or passed upon the accuracy or the adequacy of this term sheet or the accompanying underlying supplement, prospectus supplement or prospectus. Any representation to the contrary is a criminal offense.

	Price to Public	Fees(1)	Proceeds to Issuer
Per warrant	\$120.00	\$6.50	\$113.50
Total	\$	\$	\$

(1) J.P. Morgan Securities LLC, which we refer to as JPMS LLC, and JPMorgan Chase Bank, N.A. will act as agents for the warrants. The agents will forego fees for sales to fiduciary accounts. The total fees represent the amount that the agents receive from sales to accounts other than such fiduciary accounts. The agents will receive a fee from us that will not exceed \$6.50 per warrant. For more information see “Underwriting” in this term sheet.

The warrants are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

JPMorgan
 Placement Agent

August 26, 2014

Issuer's Estimated Value of the Warrants

The Issuer's estimated value of the warrants is our valuation of the warrants calculated based on our internal pricing models using relevant parameter inputs such as expected interest rates and mid-market levels of price and volatility of the assets underlying the warrants or any futures, options or swaps related to such underlying assets. Our internal pricing models are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect.

The Issuer's estimated value of the warrants on the Trade Date (as disclosed on the cover of this term sheet) is less than the Issue Price of the warrants. The difference between the Issue Price and the Issuer's estimated value of the warrants on the Trade Date is due to the inclusion in the Issue Price of the agent's commissions, if any, and the cost of hedging our obligations under the warrants through one or more of our affiliates. Such hedging cost includes our or our affiliates' expected cost of providing such hedge, as well as the profit we or our affiliates expect to realize in consideration for assuming the risks inherent in providing such hedge.

The Issuer's estimated value of the warrants on the Trade Date does not represent the price at which we or any of our affiliates would be willing to purchase your warrants in the secondary market at any time. Assuming no changes in market conditions or our creditworthiness and other relevant factors, the price, if any, at which we or our affiliates would be willing to purchase the warrants from you in secondary market transactions, if at all, would generally be lower than both the Issue Price and the Issuer's estimated value of the warrants on the Trade Date. Our purchase price, if any, in secondary market transactions will be based on the estimated value of the warrants determined by reference to our pricing models at that time, less a bid spread determined after taking into account the size of the repurchase, the nature of the assets underlying the warrants and then-prevailing market conditions. The price we report to financial reporting services and to distributors of our warrants for use on customer account statements would generally be determined on the same basis. However, during the period of approximately three months beginning from the Trade Date, we or our affiliates may, in our sole discretion, increase the purchase price determined as described above by an amount equal to the declining differential between the Issue Price and the Issuer's estimated value of the warrants on the Trade Date, prorated over such period on a straight-line basis, for transactions that are individually and in the aggregate of the expected size for ordinary secondary market repurchases.

Additional Terms Specific to the Warrants

You should read this term sheet together with the prospectus dated September 28, 2012, as supplemented by the prospectus supplement dated September 28, 2012, relating to our warrants and the underlying supplement No. 1 dated October 1, 2012. You may access these documents on the website of the Securities and Exchange Commission (the “SEC”) at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

Underlying supplement No. 1 dated October 1, 2012:

http://www.sec.gov/Archives/edgar/data/1159508/000095010312005120/crt_dp33209-424b2.pdf

Prospectus supplement dated September 28, 2012:

<http://www.sec.gov/Archives/edgar/data/1159508/000119312512409460/d415003d424b21.pdf>

Prospectus dated September 28, 2012:

<http://www.sec.gov/Archives/edgar/data/1159508/000119312512409372/d413728d424b21.pdf>

Our Central Index Key, or CIK, on the SEC website is 0001159508. As used in this term sheet, “we,” “us” or “our” refers to Deutsche Bank AG, including, as the context requires, acting through one of its branches.

This term sheet, together with the documents listed above, contains the terms of the warrants and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in “Selected Risk Considerations” in this term sheet, as the warrants involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisers before deciding to invest in the warrants.

Deutsche Bank AG has filed a registration statement (including a prospectus) with the Securities and Exchange Commission for the offering to which this term sheet relates. Before you invest, you should read the prospectus in that registration statement and the other documents relating to this offering that Deutsche Bank AG has filed with the SEC for more complete information about Deutsche Bank AG and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, Deutsche Bank AG, any agent or any dealer participating in this offering will arrange to send you the underlying supplement, prospectus supplement, prospectus and this term sheet if you so request by calling toll-free 1-800-311-4409.

You may revoke your offer to purchase the warrants at any time prior to the time at which we accept such offer by notifying the applicable agent. We reserve the right to change the terms of, or reject any offer to purchase, the warrants prior to their issuance. We will notify you in the event of any changes to the terms of the warrants, and you will be asked to accept such changes in connection with your purchase of any warrants. You may choose to reject such changes, in which case we may reject your offer to purchase the warrants.

What Is the Cash Settlement Amount, Assuming a Range of Performances for the Index?

The table and examples below illustrate the potential Cash Settlement Amounts per warrant on the Expiration Date for a hypothetical range of performances of the Index from -100.00% to 100.00%. The hypothetical Cash Settlement Amounts set forth below reflect the Strike Level of 100% of the Initial Level, the Warrant Premium Percentage of 12.00% and the Warrant Premium of \$120.00 per warrant and assume a hypothetical Initial Level of 2,000.00. The actual Initial Level and Strike Level will be determined on the Trade Date. The hypothetical returns set forth below are for illustrative purposes only and may not be the actual returns applicable to an investor in the warrants. The numbers appearing in the following table and examples may have been rounded for ease of analysis.

Hypothetical Final Level	Percentage Change from Initial Level	Hypothetical Index Strike Return	Cash Settlement Amount	Cash Settlement Amount minus Warrant Premium	Cash Settlement Amount minus Warrant Premium as Percentage Return on Warrant
4,000.00	100.00%	100.00%	\$1,000.00	\$880.00	733.33%
3,800.00	90.00%	90.00%	\$900.00	\$780.00	650.00%
3,600.00	80.00%	80.00%	\$800.00	\$680.00	566.67%
3,400.00	70.00%	70.00%	\$700.00	\$580.00	483.33%
3,200.00	60.00%	60.00%	\$600.00	\$480.00	400.00%
3,000.00	50.00%	50.00%	\$500.00	\$380.00	316.67%
2,800.00	40.00%	40.00%	\$400.00	\$280.00	233.33%
2,600.00	30.00%	30.00%	\$300.00	\$180.00	150.00%
2,400.00	20.00%	20.00%	\$200.00	\$80.00	66.67%
2,300.00	15.00%	15.00%	\$150.00	\$30.00	25.00%
2,240.00	12.00%	12.00%	\$120.00	\$0.00	0.00%
2,200.00	10.00%	10.00%	\$100.00	-\$20.00	-16.67%
2,100.00	5.00%	5.00%	\$50.00	-\$70.00	-58.33%
2,050.00	2.50%	2.50%	\$25.00	-\$95.00	-79.17%
2,000.00	0.00%	0.00%	\$0.00	-\$120.00	-100.00%
1,800.00	-10.00%	-10.00%	\$0.00	-\$120.00	-100.00%
1,600.00	-20.00%	-20.00%	\$0.00	-\$120.00	-100.00%
1,400.00	-30.00%	-30.00%	\$0.00	-\$120.00	-100.00%
1,200.00	-40.00%	-40.00%	\$0.00	-\$120.00	-100.00%
1,000.00	-50.00%	-50.00%	\$0.00	-\$120.00	-100.00%
800.00	-60.00%	-60.00%	\$0.00	-\$120.00	-100.00%
600.00	-70.00%	-70.00%	\$0.00	-\$120.00	-100.00%
400.00	-80.00%	-80.00%	\$0.00	-\$120.00	-100.00%
200.00	-90.00%	-90.00%	\$0.00	-\$120.00	-100.00%
0.00	-100.00%	-100.00%	\$0.00	-\$120.00	-100.00%

Hypothetical Examples of Amounts Payable at Expiration

The following hypothetical examples illustrate how the Cash Settlement Amounts set forth above are calculated.

Example 1: The level of the Index increases 30.00% from the Initial Level of 2,000.00 to a Final Level of 2,600.00. Because the Final Level of 2,600.00 is greater than the Strike Level of 2,000.00, the Index Strike Return is 30.00% and the investor will be entitled to receive a Cash Settlement Amount of \$300.00 per warrant, calculated as follows:

$$\begin{aligned} & \$1,000 \times \text{Index Strike Return} \\ & \$1,000 \times 30.00\% = \$300.00 \end{aligned}$$

Taking into account the investor's payment of the Warrant Premium of \$120.00, the payment of the Cash Settlement Amount of \$300.00 represents a gain of \$180.00 per warrant, or 150.00% of the initial investment of \$120.00.

Example 2: The level of the Index increases 5.00% from the Initial Level of 2,000.00 to a Final Level of 2,100.00. Because the Final Level of 2,100.00 is greater than the Strike Level of 2,000.00, the Index Strike Return is 5.00% and the investor will be entitled to receive a Cash Settlement Amount of \$50.00 per warrant, calculated as follows:

$$\begin{aligned} & \$1,000 \times \text{Index Strike Return} \\ & \$1,000 \times 5.00\% = \$50.00 \end{aligned}$$

In this example, because the Final Level is greater than the Strike Level by only 5.00%, which is less than the Warrant Premium Percentage of 12.00%, the investor's Cash Settlement Amount of \$50.00 per warrant will result in a 58.33% loss of its initial investment of \$120.00.

Example 3: The Final Level of 2,000.00 is the same as the Initial Level. Because the Final Level of 2,000.00 is equal to the Strike Level, the Index Strike Return is 0.00% and the warrants expire worthless. As a result, the investor will lose its entire investment in the warrants.

Example 4: The level of the Index decreases 30.00% from the Initial Level of 2,000.00 to a Final Level of 1,400.00. Because the Final Level of 1,400.00 is less than the Strike Level of 2,000.00, the Index Strike Return is -30.00% and the warrants expire worthless. As a result, the investor will lose its entire investment in the warrants.

Selected Purchase Considerations

- **UNCAPPED APPRECIATION POTENTIAL; LOSS OF ENTIRE INITIAL INVESTMENT IF THE LEVEL OF THE INDEX DOES NOT INCREASE** — The warrants provide exposure to the performance of the Index if the Final Level is greater than the Strike Level by a percentage greater than the Warrant Premium Percentage of 12.00%. For example, if the closing level of the Index increases 30.00% from the Initial Level to the Final Level, investors will receive a Cash Settlement Amount of \$300.00 at expiration, representing a gain of 150.00% of the initial investment of \$120.00. If the Final Level is greater than the Strike Level but by a percentage less than the Warrant Premium Percentage, you will lose some or a significant portion of your initial investment. If the Final Level is less than or equal to the Strike Level, the warrants will expire worthless and you will lose your entire investment in the warrants. Any payment on the warrants at expiration is subject to our ability to satisfy our obligations as they become due. You should read this term sheet carefully and understand the terms of the warrants and the manner in which the Cash Settlement Amount is determined before deciding that an investment in the warrants is suitable for you.
- **THE WARRANTS ARE SUITABLE ONLY FOR INVESTORS WITH OPTIONS-APPROVED ACCOUNTS** — You will not be able to purchase the warrants unless you have an options-approved brokerage account. The warrants involve a high degree of risk and are not appropriate for every investor. You must be able to understand and bear the risk of an investment in the warrants, and you should be experienced with respect to options and option transactions.
- **RETURN LINKED TO THE PERFORMANCE OF THE S&P 500® INDEX** — The return on the warrants, which may be positive, zero or negative, is linked to the performance of the S&P 500® Index as described herein. The S&P 500® Index is intended to provide a performance benchmark for the U.S. equity markets. The calculation of the level of the S&P 500® Index is based on the relative value of the aggregate market value of the shares of 500 companies as of a particular time as compared to the aggregate average market value of the shares of 500 similar companies during the base period of the years 1941 through 1943. On March 11, 2014, the sponsor of the S&P 500® Index announced that the sponsor will start including, on a case by case basis, multiple share class lines in the S&P 500® Index. This will result in the S&P 500® Index including more than 500 component shares while continuing to include only 500 component companies. The sponsor expects to revise the S&P 500® Index's methodology to fully reflect a multiple share class structure by September 2015. This is only a summary of the S&P 500® Index. For more information on the S&P 500® Index, including information concerning its composition, calculation methodology and adjustment policy, please see the section entitled "The S&P Indices – The S&P 500® Index" in the accompanying underlying supplement No. 1 dated October 1, 2012.

- **MINIMUM INITIAL INVESTMENT** — The minimum initial investment is \$9,960.00 or 83 warrants, each with a Notional Amount of \$1,000 (and then in increments of one warrant thereafter), resulting in an aggregate minimum Notional Amount of \$83,000.
- **TAX CONSEQUENCES** — In the opinion of our special tax counsel, Davis Polk & Wardwell LLP, the warrants will be treated for U.S. federal income tax purposes as cash-settled options. Generally, (i) you will not recognize taxable income or loss with respect to a warrant prior to its exercise or lapse, other than pursuant to a taxable disposition, and (ii) the gain or loss on your warrant will be capital gain or loss and will be long-term capital gain or loss if you have held the warrant for more than one year.

You should review carefully the section of the accompanying prospectus supplement entitled “United States Federal Income Taxation.” The preceding discussion, when read in combination with that section, constitutes the full opinion of our special tax counsel regarding the material U.S. federal income tax consequences of owning and disposing of the warrants.

Under current law, the United Kingdom will not impose withholding tax on payments made with respect to the warrants.

For a discussion of certain German tax considerations relating to the warrants, you should refer to the section in the accompanying prospectus supplement entitled “Taxation by Germany of Non-Resident Holders.”

You should consult your tax adviser regarding the U.S. federal tax consequences of an investment in the warrants, as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Selected Risk Considerations

An investment in the warrants involves significant risks. Investing in the warrants is not equivalent to investing directly in the stocks composing the Index.

- **THE WARRANTS ARE A RISKY INVESTMENT AND THE WARRANTS WILL EXPIRE WORTHLESS IF THE FINAL LEVEL IS LESS THAN OR EQUAL TO THE STRIKE LEVEL** — The warrants are highly speculative and highly leveraged. If the Final Level is less than or equal to the Strike Level, the warrants will expire worthless and you will lose your entire investment in the warrants. The warrants are not suitable for investors who cannot sustain a total loss of their investment. You should be willing and able to sustain a total loss of your investment in the warrants.
- **YOU MAY LOSE SOME OR A SIGNIFICANT PORTION OF YOUR INITIAL INVESTMENT EVEN IF THE FINAL LEVEL IS GREATER THAN THE STRIKE LEVEL** — Even if the Final Level is greater than the Strike Level, you will lose some or a significant portion of your initial investment if the Final Level is greater than the Strike Level but by a percentage less than the Warrant Premium Percentage of 12.00%. In order for you to receive a Cash Settlement Amount greater than your initial investment, the Final Level must be greater than the Strike Level by a percentage greater than the Warrant Premium Percentage.

- **THE WARRANTS ARE SUITABLE ONLY FOR INVESTORS WITH OPTIONS-APPROVED ACCOUNTS** — You will not be able to purchase the warrants unless you have an option

Cash flows from financing activities:			
Contributions from stockholder			104
Net proceeds from sale of preferred stock			4,000
Net proceeds from sale of common stock	13,812		66,641
Net proceeds from issuance of convertible debentures and warrants	9,214		9,214
Purchase of treasury stock	(346)		(346)
Proceeds from issuance of debt			371
Net proceeds from recapitalization			6,271
Net proceeds from warrants and options exercised	3,580	2	16,574
Net cash from financing activities	26,260	2	102,829
Net increase (decrease) in cash	16,633	(14,126)	29,720
Cash and equivalents at beginning of period	13,087	30,567	
Cash and equivalents at end of period	\$ 29,720	\$ 16,441	\$ 29,720

The accompanying notes are an integral part of these financial statements.

Table of Contents**Hollis-Eden Pharmaceuticals, Inc.****(A Development Stage Company)****Statements of Cash Flows (Cont.)****(Unaudited)****All numbers in thousands**

	9 months ended Sept. 30,		Period from Inception (Aug. 15, 1994)
	2003	2002	to Sept. 30, 2003
Supplemental Disclosure of Cash Flow Information:			
Interest Paid	\$ 338	\$	\$ 388
Supplemental Disclosure of Non-Cash Financing Activities:			
Conversion of debt to equity	10,000		10,371
Warrants issued to consultants in lieu of cash, no vesting		214	559
Warrants issued in lieu of cash, commissions on private placement			1,223
Warrants issued in connection with convertible debentures	371		371

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HOLLIS-EDEN PHARMACEUTICALS, INC.

(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

1. Basis of Presentation

The information at September 30, 2003, and for the three-month and nine-month periods ended September 30, 2003 and 2002, is unaudited. In the opinion of management, these financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with the Hollis-Eden Pharmaceuticals, Inc. (Hollis-Eden) Annual Report on Form 10-K for the year ended December 31, 2002, which was filed with the United States Securities and Exchange Commission on March 14, 2003.

Accounting for Stock-Based Compensation

During 1995, the Financial Accounting Standards Board issued SFAS 123, Accounting for Stock-Based Compensation, which defines a fair-value-based method of accounting for stock compensation plans. However, it also allows an entity to continue to measure compensation cost related to stock compensation plans using the method of accounting prescribed by the Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees. Entities electing to follow APB 25 must make pro forma disclosures of net income (loss), as if the fair-value-based method of accounting defined in SFAS had been applied.

If the Company had accounted for stock options issued to employees and directors in accordance with SFAS 123, the Company's net loss would have been reported as follows (in thousands, except per share amounts):

	Three Months ended September 30,		Nine Months ended September 30,	
	2003	2002	2003	2002
Net loss - As reported	\$ (10,238)	\$ (4,515)	\$ (20,256)	\$ (14,349)
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards	(962)	(248)	(4,557)	(5,570)
Net loss - Pro forma	<u>\$ (11,290)</u>	<u>\$ (4,763)</u>	<u>\$ (24,813)</u>	<u>\$ (19,919)</u>
Basic and diluted net loss per share - As reported	\$ (0.66)	\$ (0.35)	\$ (1.45)	\$ (1.11)

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We incurred issuance costs of approximately \$1.2 million, representing cash obligations of \$0.8 million and the Black-Scholes value of approximately \$0.4 million of a warrant issued to the placement agent to acquire an aggregate of 73,684 shares of common stock at an exercise price of \$5.99 per share. This warrant is exercisable from August 25, 2003 through February 25, 2008. The issuance costs were deferred and will be amortized as interest expense over the term of the debentures or as conversion occurs. In June 2003, the terms of the warrant were amended, and the warrant became exercisable anytime through February 25, 2008, resulting in a one-time non-cash charge of \$0.2 million.

On June 20, 2003, convertible debentures with a face value of \$0.5 million were converted into 87,720 shares of our common stock at \$5.70 per share. We issued 169 shares of our common stock, with a value of \$12.27 per share, in lieu of cash, for June interest expense related to this converted debenture.

We became entitled to convert the outstanding debentures into common stock as of the close of market on Friday, August 8, 2003, at which point the volume weighted average price of our common stock had exceeded \$14.25 for 15 consecutive trading days. On August 11, 2003, the remaining aggregate principal amount of convertible debentures with a face value of \$9.5 million were converted into 1,666,680 shares of our common stock at \$5.70 per share. We issued 8,901 shares of our common stock, with a value of \$15.78 per share, in lieu of cash, for June 1, 2003 through August 11, 2003 interest expense related to these converted debentures.

The conversion of the debentures prior to the maturity date resulted in amortization of all the remaining deemed discount and deferred issuance costs. The deemed discount and deferred issuance costs amortization were \$6.4 million and \$7.6 million for the three-month and nine-month periods ending September 30, 2003.

In June 2003, warrants to purchase of 192,984 shares of common stock at an exercise price of \$6.17 per share and 175,440 shares of common stock at an exercise price of \$6.71 per share were exercised for total gross proceeds of \$2.4 million.

Pharmadigm

In August 2002, we entered into a Sublicense Agreement with Pharmadigm, Inc. Under the agreement, we obtained exclusive worldwide rights to certain intellectual property of Pharmadigm and the University of Utah and we agreed to make aggregate payments of \$0.9 million in cash or in shares of our common stock, at our option, over the next year. This cost was expensed in the third quarter of 2002. We elected to make such payments in equity and have issued a total of 168,921 shares of our common stock in complete satisfaction of this requirement (of which 118,921 were issued the quarter ended March 31, 2003). We may also make additional milestone and royalty payments to Pharmadigm if we meet specified development and commercialization milestones for products covered by the patents. The principal patents licensed under the agreement, originally licensed to Pharmadigm from the University of Utah, relate to inventions by Dr. Raymond Daynes and Dr. Barbara A. Areneo. Dr. Daynes is currently a scientific consultant to Hollis-Eden.

3. Subsequent Event

On October 1, 2003, we completed a public offering of an aggregate of 2,500,000 shares of our common stock at a price of \$25.00 per share totaling gross proceeds of \$62.5 million. All the shares were sold by the Company.

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On November 4, 2003, we announced preliminary results of an exploratory Phase II clinical trial with HE2200 in patients with significant dyslipidemia that could not be corrected by strict dietary control.

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The study was designed to evaluate the safety of HE2200 as well as the effect of the compound when given buccally once daily for 28 days on a number of lipid parameters. Results of the study indicated that HE2200 was generally well tolerated. When compared to placebo, the compound did not have a statistically significant effect on lipids in the patient population overall in this trial.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The forward-looking comments contained in the following discussion involve risks and uncertainties. Our actual results may differ materially from those discussed here due to factors such as the timing, success and cost of preclinical research and clinical studies, the timing, acceptability and review periods for regulatory filings, the ability to obtain regulatory approval of products, our ability to obtain additional funding and the development of competitive products by others. Additional factors that could cause or contribute to such differences can be found in the following discussion, as well as in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

General

Hollis-Eden Pharmaceuticals, Inc., a development-stage pharmaceutical company, is engaged in the discovery, development and commercialization of products for the treatment of immune system disorders and other conditions resulting from hormonal imbalances. Our initial technology development efforts are focused on a series of potent hormones and hormone analogs that we believe are key components of the body's natural regulatory system. We believe these compounds can be used as a hormone replacement therapy to reestablish balance to the immune system in situations of dysregulation.

We have been unprofitable since our inception and we expect to incur substantial additional operating losses for at least the next few years as we increase expenditures on research and development and begin to allocate significant and increasing resources to clinical testing and other activities. In addition, during the next few years, we may have to meet the substantial new challenge of developing the capability to market products. Accordingly, our activities to date are not as broad in depth or scope as the activities we must undertake in the future, and our historical operations and financial information are not indicative of the future operating results or financial condition or ability to operate profitably as a commercial enterprise when and if we succeed in bringing any drug candidates to market.

On March 26, 1997, Hollis-Eden, Inc., a Delaware corporation, was merged with and into us, then known as Initial Acquisition Corp. ("IAC"), a Delaware corporation. Upon consummation of the merger of Hollis-Eden, Inc. with IAC (the "Merger"), Hollis-Eden, Inc. ceased to exist, and IAC changed its name to Hollis-Eden Pharmaceuticals, Inc.

Results of Operations

We have not generated any revenues for the period from August 15, 1994 (inception of Hollis-Eden) through September 30, 2003. We have devoted substantially all of our resources to the payment of research and development expenses, licensing fees and general and administrative expenses. From inception until September 30, 2003, we have incurred expenses of approximately \$63.7 million in research and development and \$37.9 million in general and administrative expenses. We have incurred \$0.1 million in net other expenses comprised of \$7.6 million in deemed discount expense, \$0.4 million in interest expense and \$7.9 million in interest income. The combination of these resulted in a net loss of \$101.7 million for the period from inception until September 30, 2003.

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Research and development expenses were \$2.6 million and \$7.0 million for the three-month and nine-month periods ended September 30, 2003, compared to \$3.6 million and \$11.0 million for the same periods in 2002. The research and development expenses relate primarily to the ongoing development, preclinical testing, and clinical trials for our investigational drug candidates. The decrease in research and development expenses was due mainly to reduced preclinical and clinical trial activities after streamlining our operations and focusing our research and development expenditures in the second half of 2002.

General and administrative expenses were \$1.3 million and \$5.5 million for the three-month and nine-month periods ended September 30, 2003, compared to \$1.0 million and \$3.7 million for the same periods in 2002. The general and administrative expenses relate to salaries and benefits, facilities, legal, investor relations, insurance and travel. Included in the nine-month period ended September 30, 2003 was \$0.7 million in non-cash charges related to the issuance of a warrant and a change in the terms of a warrant to a placement agent. Additionally, included in the nine-month period ended September 30, 2003 was \$1.4 million in non-cash charges related to the issuance of a warrant to a director and issuance of stock options to an officer and a director and \$0.2 million in non-cash charges related to the issuance of a warrant to a consultant. The increase in general and administrative expenses was due mainly to the non-cash expenses described above.

Other income (expense) was (\$6.4) million and (\$7.8) million for the three-month and nine-month periods ended September 30, 2003, compared to \$0.1 million and \$0.3 million for the same periods in 2002. Included in the three-month and nine-month periods ended September 30, 2003, was non-cash amortization of the deemed discount on the convertible debenture and the deferred issuance costs of (\$6.4) million and (\$7.6) million, respectively. Interest expense on the convertible debentures was (\$0.1) million and (\$0.3) million in the three-month and nine-month periods ended September 30, 2003, respectively. Interest income was \$0.2 million and \$0.3 million for the nine-month periods ended September 30, 2003 and 2002, respectively. The decline in interest income is due to lower interest rates and lower average balances of cash and cash equivalents as a result of ongoing operating losses.

Liquidity and Capital Resources

We have financed our operations since inception primarily through the sale of shares of common stock. During the year ended December 31, 1995, we received cash proceeds of \$250,000 from the sale of securities. In May 1996, we completed a private placement of shares of common stock, from which we received aggregate gross proceeds of \$1.3 million. In March 1997, the Merger of IAC and Hollis-Eden, Inc. provided us with \$6.5 million in cash and other receivables. In May 1998, we completed a private placement of common stock and warrants, from which we received gross proceeds of \$20 million. During January 1999, we completed two private placements of common stock raising approximately \$25 million. In December 2001, we completed a private placement of common stock and warrants, from which we received gross proceeds of \$11.5 million. In February 2003, we completed a private placement of convertible debentures and warrants, from which we received gross proceeds of \$10.0 million. In June 2003, we completed a private placement of common stock and warrants, from which we received gross proceeds of \$14.7 million. In October 2003 we completed a public offering of an aggregate of 2,500,000 shares of our common stock at a price of \$25.00 per share. We received \$62.5 million in gross proceeds from this offering. In addition, we have received a total of \$16.6 million from the exercise of warrants and stock options from inception.

On June 20, 2003, convertible debentures with a face value of \$0.5 million were converted into 87,720 shares of our common stock leaving a \$9.5 million aggregate principle amount of convertible debentures outstanding.

We became entitled to convert the outstanding debentures into common stock as of the close of market on Friday, August 8, 2003, at which point the volume weighted average price of our common stock had exceeded \$14.25 for 15 consecutive trading days. On August 11, 2003, the remaining aggregate principal amount of convertible debentures with a face value of \$9.5 million were converted into 1,666,680 shares of our common stock with a value of \$5.70 per share.

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In June 2003, warrants to purchase 192,984 shares of common stock at an exercise price of \$6.17 per share and 175,440 shares of our common stock at an exercise price of \$6.71 per share were exercised for total gross proceeds of \$2.4 million.

A summary of our contractual obligations as of September 30, 2003 is as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	1 Year or Less	2 to 3 Years	4 to 5 Years	After 5 Years
Operating Leases	\$ 840	\$ 840	\$	\$	\$
Convertible Debentures					
Total	\$ 840	\$ 840	\$	\$	\$

Our operations to date have consumed substantial capital without generating any revenues, and we will continue to require substantial and increasing amounts of funds to conduct necessary research and development and preclinical and clinical testing of our drug candidates, and to market any drug candidates that receive regulatory approval. With the possible exception of sales of our NEUMUNE™ product for radiation treatment, we do not expect to generate revenue from operations for the foreseeable future, and our ability to meet our cash obligations as they become due and payable may depend for at least the next several years on our ability to sell securities, borrow funds or some combination thereof. Based upon our current plans, we believe that our existing capital resources, including the net proceeds from our October 2003 public offering, together with interest thereon, will be sufficient to meet our operating expenses and capital requirements through at least 2006. However, changes in our research and development plans or other events affecting our operating expenses may result in the expenditure of such cash before that time. We may not be successful in raising necessary funds.

Our future capital requirements will depend upon many factors, including progress with preclinical testing and clinical trials, the number and breadth of our programs, the time and costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other proprietary rights, the time and costs involved in obtaining regulatory approvals, competing technological and market developments, and our ability to establish collaborative arrangements, effective commercialization, marketing activities and other arrangements. We may incur increasing negative cash flows and net losses for the foreseeable future. We may seek additional funding through public or private financing or through collaborative arrangements with strategic partners.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At September 30, 2003, our investment portfolio included only cash and money market accounts and does not contain fixed-income securities. There would be no material impact to our investment portfolio, in the short term, associated with any change in interest rates, and any decline in interest rates over time will reduce our interest income, while increases in interest rates over time will increase our interest income.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Operating Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief

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Operating Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and that there has been no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II Other Information

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of the date of this quarterly report, we are not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or operating results.

Item 2. Changes in Securities

On August 11, 2003, all remaining convertible debentures, with a face value of \$9.5 million, were converted into 1,666,680 shares of our common stock at a value of \$5.70 per share. We also issued 8,901 shares of common stock at a value of \$15.78 per share, in lieu of cash, for June 1, 2003 through August 11, 2003 interest expense related to these converted debentures.

The issuance of these securities was deemed to be exempt from registration under the Securities Act of 1933, as amended, by virtue of Section 4(2) and/or Regulation D promulgated under such Act. The recipients represented their intention to acquire the securities for investment only and not with a view to distribution thereof. Appropriate legends are affixed to the securities issued in such transactions.

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Securities Holders

None

Item 5. Other Information

Risk Factors

An investment in Hollis-Eden shares involves a high degree of risk. You should consider the following discussion of risks, in addition to other information contained in this report and in our most recent annual report on Form 10-K as well as our other public filings with the Securities and Exchange Commission, before purchasing any of our securities. If any of the following risks actually occurs, our business, financial condition, results of operations and future growth prospects would likely be materially adversely affected.

If we do not obtain government regulatory approval for our products, we cannot sell our products and we will not generate revenues.

Our principal development efforts are currently centered around immune regulating hormones, a class of drug candidates which we believe shows promise for the treatment of a variety of infectious diseases and immune system and metabolic disorders. However, all drug candidates require U.S. FDA and foreign government approvals before they can be commercialized. These regulations change from time to time and new regulations may be adopted. None of our drug candidates has been approved for commercial sale. We expect to incur significant additional operating losses over the next several years as we fund development, clinical testing and other expenses while seeking regulatory approval. While limited clinical trials of our drug candidates have been conducted to date, significant additional trials are required, and we may not be able to demonstrate that these drug candidates are safe or effective. If we are unable to demonstrate the safety and effectiveness of a particular drug candidate to the satisfaction of regulatory authorities, the drug

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candidate will not obtain required government approval. If we do not receive FDA or foreign approvals for our products, we will not be able to sell our products and will not generate revenues. If we receive regulatory approval of a product, such approval may impose limitations on the indicated uses for which we may market the product, which may limit our ability to generate significant revenues.

If we do not successfully commercialize our products, we may never achieve profitability.

We have experienced significant operating losses to date because of the substantial expenses we have incurred to acquire and fund development of our drug candidates. We have never had operating revenues and have never commercially introduced a product. Our accumulated deficit was approximately \$101.7 million as of September 30, 2003. Our net losses for fiscal years 2002, 2001 and 2000 were \$17.5 million, \$15.8 million and \$19.5 million, respectively. Many of our research and development programs are at an early stage. Potential drug candidates are subject to inherent risks of failure. These risks include the possibilities that no drug candidate will be found safe or effective, meet applicable regulatory standards or receive the necessary regulatory clearances. Even safe and effective drug candidates may never be developed into commercially successful drugs. If we are unable to develop safe, commercially viable drugs, we may never achieve profitability. If we become profitable, we may not remain profitable.

As a result of our intensely competitive industry, we may not gain enough market share to be profitable.

The biotechnology and pharmaceutical industries are intensely competitive. We have numerous competitors in the United States and elsewhere. Because we are pursuing potentially large markets, our competitors include major, multinational pharmaceutical and chemical companies, specialized biotechnology firms and universities and other research institutions. Several of these entities have already successfully marketed and commercialized products that will compete with our products, assuming that our products gain regulatory approval. Companies such as GlaxoSmithKline, Merck & Company, Roche Pharmaceuticals, Pfizer Inc. and Abbott Laboratories have significant market share for the treatment of a number of infectious diseases such as HIV. In addition, biotechnology companies such as Gilead Sciences Inc., Chiron Corporation and Vertex Pharmaceuticals Inc., as well as many others, have research and development programs in these fields. A large number of companies, including Merck & Company, Pfizer Inc., Johnson & Johnson Inc. and Amgen Inc. are also developing and marketing new drugs for the treatment of cardiovascular disease and chronic inflammatory conditions. Companies such as Amgen Inc. have developed or are developing products to boost neutrophils after chemotherapy.

Many of these competitors have greater financial and other resources, larger research and development staffs and more effective marketing and manufacturing organizations than we do. In addition, academic and government institutions have become increasingly aware of the commercial value of their research findings. These institutions are now more likely to enter into exclusive licensing agreements with commercial enterprises, including our competitors, to develop and market commercial products.

Our competitors may succeed in developing or licensing technologies and drugs that are more effective or less costly than any we are developing. Our competitors may succeed in obtaining FDA or other regulatory approvals for drug candidates before we do. If competing drug candidates prove to be more effective or less costly than our drug candidates, our drug candidates, even if approved for sale, may not be able to compete successfully with our competitors' existing products or new products under development. If we are unable to compete successfully, we may never be able to sell enough products at a price sufficient to permit us to generate profits.

We may need to raise additional money before we achieve profitability; if we fail to raise additional money, it would be difficult to continue our business.

As of September 30, 2003, our cash and cash equivalents totaled approximately \$29.7 million. In October 2003, we completed a public offering of our common stock in which we received gross proceeds of

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approximately \$62.5 million. Based on our current plans, we believe these financial resources, and interest earned thereon, will be sufficient to meet our operating expenses and capital requirements through at least 2006. However, changes in our research and development plans or other events affecting our operating expenses may result in the expenditure of such cash before that time. We will require substantial additional funds in order to finance our drug discovery and development programs, fund operating expenses, pursue regulatory clearances, develop manufacturing, marketing and sales capabilities, and prosecute and defend our intellectual property rights. We may seek additional funding through public or private financing or through collaborative arrangements with strategic partners.

You should be aware that in the future:

we may not obtain additional financial resources when necessary or on terms favorable to us, if at all; and

any available additional financing may not be adequate.

If we cannot raise additional funds when needed, or on acceptable terms, we will not be able to continue to develop our drug candidates.

Failure to protect our proprietary technology could impair our competitive position.

We own or have obtained a license to over 100 issued U.S. and foreign patents and over 150 pending U.S. and foreign patent applications. Our success will depend in part on our ability to obtain additional United States and foreign patent protection for our drug candidates and processes, preserve our trade secrets and operate without infringing the proprietary rights of third parties. We place considerable importance on obtaining patent protection for significant new technologies, products and processes. Legal standards relating to the validity of patents covering pharmaceutical and biotechnology inventions and the scope of claims made under such patents are still developing. In some of the countries in which we intend to market our products, pharmaceuticals are either not patentable or have only recently become patentable. Past enforcement of intellectual property rights in many of these countries has been limited or non-existent. Future enforcement of patents and proprietary rights in many other countries may be problematic or unpredictable. Moreover, the issuance of a patent in one country does not assure the issuance of a similar patent in another country. Claim interpretation and infringement laws vary by nation, so the extent of any patent protection is uncertain and may vary in different jurisdictions. Our domestic patent position is also highly uncertain and involves complex legal and factual questions. The applicant or inventors of subject matter covered by patent applications or patents owned by or licensed to us may not have been the first to invent or the first to file patent applications for such inventions. Due to uncertainties regarding patent law and the circumstances surrounding our patent applications, the pending or future patent applications we own or have licensed may not result in the issuance of any patents. Existing or future patents owned by or licensed to us may be challenged, infringed upon, invalidated, found to be unenforceable or circumvented by others. Further, any rights we may have under any issued patents may not provide us with sufficient protection against competitive products or otherwise cover commercially valuable products or processes.

Litigation or other disputes regarding patents and other proprietary rights may be expensive, cause delays in bringing products to market and harm our ability to operate.

The manufacture, use or sale of our drug candidates may infringe on the patent rights of others. If we are unable to avoid infringement of the patent rights of others, we may be required to seek a license, defend an infringement action or challenge the validity of the patents in court. Patent litigation is costly and time consuming. We may not have sufficient resources to bring these actions to a successful conclusion. In addition, if we do not obtain a license, develop or obtain non-infringing technology, or fail to successfully defend an infringement action or have the patents we are alleged to infringe declared invalid, we may

incur substantial money damages;

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encounter significant delays in bringing our drug candidates to market.

be precluded from participating in the manufacture, use or sale of our drug candidates or methods of treatment without first obtaining licenses to do so; and/or

not be able to obtain any required license on favorable terms, if at all.

In addition, if another party claims the same subject matter or subject matter overlapping with the subject matter that we have claimed in a United States patent application or patent, we may decide or be required to participate in interference proceedings in the United States Patent and Trademark Office in order to determine the priority of invention. Loss of such an interference proceeding would deprive us of patent protection sought or previously obtained and could prevent us from commercializing our products. Participation in such proceedings could result in substantial costs, whether or not the eventual outcome is favorable. These additional costs could adversely affect our financial results.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

In order to protect our proprietary technology and processes, we also rely in part on confidentiality agreements with our employees, consultants, outside scientific collaborators and sponsored researchers and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Existing pricing regulations and reimbursement limitations may reduce our potential profits from the sale of our products.

The requirements governing product licensing, pricing and reimbursement vary widely from country to country. Some countries require approval of the sale price of a drug before it can be marketed. In many countries, the pricing review period begins after product licensing approval is granted. As a result, we may obtain regulatory approval for a drug candidate in a particular country, but then be subject to price regulations that reduce our profits from the sale of the product. In some foreign markets pricing of prescription pharmaceuticals is subject to continuing government control even after initial marketing approval. In addition, certain governments may grant third parties a license to manufacture our product without our permission. Such compulsory licenses typically would be on terms that are less favorable to us and would have the effect of reducing our revenues.

Varying price regulation between countries can lead to inconsistent prices and some re-selling by third parties of products from markets where products are sold at lower prices to markets where those products are sold at higher prices. This practice of exploiting price differences between countries could undermine our sales in markets with higher prices and reduce the sales of our future products, if any.

While we do not have any applications for regulatory approval of our products currently pending, the decline in the size of the markets in which we may in the future sell commercial products could cause the perceived market value of our business and the price of our common stock to decline.

Our ability to commercialize our products successfully also will depend in part on the extent to which reimbursement for the cost of our products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Third-party payors are increasingly challenging the prices charged for medical products and services. If we succeed in bringing any of our potential products to the market, such products may not be considered cost effective and reimbursement may not be available or sufficient to allow us to sell such products on a profitable or competitive basis.

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Delays in the conduct or completion of our clinical trials or the analysis of the data from our clinical trials may result in delays in our planned filings for regulatory approvals, or adversely affect our ability to enter into collaborative arrangements.

The current status of our drug candidates is set forth below. We have either completed or are in the midst of:

animal efficacy studies with HE2100 in the United States for the treatment of radiation exposure;

Phase II clinical trials with HE2000 in South Africa and Phase I/II clinical trials with HE2000 in the United States for the treatment of HIV/AIDS;

Phase II clinical trials with HE2000 in Thailand for the treatment of malaria;

Phase I/II clinical trial with HE2200 in the United States to determine whether the compound can improve an elderly person's immune response to a hepatitis B vaccine; and

Phase II clinical trial with HE2200 in the United States for cholesterol lowering.

We may encounter problems with some or all of our completed or ongoing studies that may cause us or regulatory authorities to delay or suspend our ongoing studies or delay the analysis of data from our completed or ongoing studies. We rely, in part, on third parties to assist us in managing and monitoring clinical trials. We generally do not have control over the amount and timing of resources that our business partners devote to our drug candidates. Our reliance on these third parties may result in delays in completing or failure to complete studies if third parties fail to perform their obligations to us. If the results of our ongoing and planned studies for our drug candidates are not available when we expect or if we encounter any delay in the analysis of the results of our studies for our drug candidates:

we may not have the financial resources to continue research and development of any of our drug candidates; and

we may not be able to enter into collaborative arrangements relating to any drug candidate subject to delay in regulatory filing.

Any of the following reasons, among others, could delay or suspend the completion of our ongoing and future studies:

delays in enrolling volunteers;

interruptions in the manufacturing of our drug candidates or other delays in the delivery of materials required for the conduct of our studies;

lower than anticipated retention rate of volunteers in a trial;

unfavorable efficacy results;

serious side effects experienced by study participants relating to the drug candidate; or

failure to raise additional funds.

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If the manufacturers of our products do not comply with current Good Manufacturing Practices regulations, or cannot produce the amount of products we need to continue our development, we will fall behind on our business objectives.

An outside manufacturer, Hovione Soc. Química, S.A., is currently the primary producer of the active pharmaceutical ingredient for our drug candidate HE2000, and may produce other compounds for us in the future. Manufacturers producing our drug candidates must follow current Good Manufacturing Practices regulations enforced by the FDA and foreign equivalents. If a manufacturer of our drug candidates does not conform to the Good Manufacturing Practices regulations and cannot be brought up to such a standard, we will be required to find alternative manufacturers that do conform. This may be a long and difficult process, and may delay our ability to receive FDA or foreign regulatory approval of our products.

We also rely on our manufacturers to supply us with a sufficient quantity of our drug candidates to conduct clinical trials. If we have difficulty in the future obtaining our required quantity and quality of supply, we could experience significant delays in our development programs and regulatory process.

Our ability to achieve any significant revenue may depend on our ability to establish effective sales and marketing capabilities.

Our efforts to date have focused on the development and evaluation of our drug candidates. As we continue clinical studies and prepare for commercialization of our drug candidates, we may need to build a sales and marketing infrastructure. As a company, we have no experience in the sales and marketing of pharmaceutical products. If we fail to establish a sufficient marketing and sales force or to make alternative arrangements to have our products marketed and sold by others on attractive terms, it will impair our ability to commercialize our drug candidates and to enter new or existing markets. Our inability to effectively enter these markets would materially and adversely affect our ability to generate significant revenues.

If we were to lose the services of Richard B. Hollis, or fail to attract or retain qualified personnel in the future, our business objectives would be more difficult to implement, adversely affecting our operations.

Our ability to successfully implement our business strategy depends highly upon our Chief Executive Officer, Richard B. Hollis. The loss of Mr. Hollis' services could impede the achievement of our objectives. We also highly depend on our ability to hire and retain qualified scientific and technical personnel. The competition for these employees is intense. Thus, we may not be able to continue to hire and retain the qualified personnel needed for our business. Loss of the services of or the failure to recruit key scientific and technical personnel could adversely affect our business, operating results and financial condition.

We may face product liability claims related to the use or misuse of our products, which may cause us to incur significant losses.

We are currently exposed to the risk of product liability claims due to administration of our drug candidates in clinical trials, since the use or misuse of our drug candidates during a clinical trial could potentially result in injury or death. If we are able to commercialize our products, we will also be subject to the risk of losses in the future due to product liability claims in the event that the use or misuse of our commercial products results in injury or death. We currently maintain liability insurance on a claims-made basis in an aggregate amount of \$5 million. Because we cannot predict the magnitude or the number of claims that may be brought against us in the future, we do not know whether the insurance policies' coverage limits are adequate. The insurance is expensive, difficult to obtain and may not be available in the future on

acceptable terms, or at all. Any claims against us, regardless of their merit, could substantially increase our costs and cause us to incur significant losses.

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Trading in our securities could be subject to extreme price fluctuations that could adversely affect your investment.

The market prices for securities of life sciences companies, particularly those that are not profitable, have been highly volatile, especially recently. Publicized events and announcements may have a significant impact on the market price of our common stock. For example:

biological or medical discoveries by competitors;

public concern about the safety of our drug candidates;

delays in the conduct or analysis of our clinical trials;

unfavorable results from clinical trials;

unfavorable developments concerning patents or other proprietary rights; or

unfavorable domestic or foreign regulatory developments;

may have the effect of temporarily or permanently driving down the price of our common stock. In addition, the stock market from time to time experiences extreme price and volume fluctuations which particularly affect the market prices for emerging and life sciences companies, such as ours, and which are often unrelated to the operating performance of the affected companies. For example, our stock price has ranged from \$3.30 to \$36.25 between January 1, 2002 and November 10, 2003.

These broad market fluctuations may adversely affect the ability of a stockholder to dispose of his shares at a price equal to or above the price at which the shares were purchased. In addition, in the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. This type of litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources, which could materially adversely affect our business, financial condition and results of operations.

We may be delisted from The Nasdaq National Market, which could materially limit the trading market for our common stock.

Our common stock is quoted on The Nasdaq National Market. In order to continue to be included in The Nasdaq National Market, a company must meet Nasdaq's maintenance criteria. We may not be able to continue to meet these listing criteria. Failure to meet Nasdaq's maintenance criteria may result in the delisting of our common stock from The Nasdaq National Market. If our common stock is delisted, in order to have our common stock relisted on The Nasdaq National Market we would be required to meet the criteria for initial listing, which are more stringent than the maintenance criteria. Accordingly, if we were delisted we may not be able to have our common stock relisted on The Nasdaq National Market. If our common stock is removed from listing on The Nasdaq National Market, it may become more difficult for us to raise funds through the sale of our common stock or securities convertible into our common stock.

Because stock ownership is concentrated, you and other investors will have minimal influence on stockholders' decisions.

Assuming that outstanding warrants and options have not been exercised, Richard B. Hollis, our Chief Executive Officer, owns approximately 14% of our outstanding common stock as of November 10, 2003. Assuming that Mr. Hollis exercises all of his outstanding warrants and options that vest within 60

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days of November 10, 2003, Mr. Hollis would beneficially own approximately 20% of our outstanding common stock as of November 10, 2003. As a result, Mr. Hollis may be able to significantly influence the management of Hollis-Eden and all matters requiring stockholder approval, including the election of directors. Such concentration of ownership may also have the effect of delaying or preventing a change in control of Hollis-Eden.

Substantial sales of our stock may impact the market price of our common stock.

Future sales of substantial amounts of our common stock, including shares that we may issue upon exercise of options and warrants, could adversely affect the market price of our common stock. Further, if we raise additional funds through the issuance of common stock or securities convertible into or exercisable for common stock, the percentage ownership of our stockholders will be reduced and the price of our common stock may fall.

Issuing preferred stock with rights senior to those of our common stock could adversely affect holders of common stock.

Our charter documents give our board of directors the authority to issue series of preferred stock without a vote or action by our stockholders. The board also has the authority to determine the terms of preferred stock, including price, preferences and voting rights. The rights granted to holders of preferred stock may adversely affect the rights of holders of our common stock. For example, a series of preferred stock may be granted the right to receive a liquidation preference – a pre-set distribution in the event of a liquidation – that would reduce the amount available for distribution to holders of common stock. In addition, the issuance of preferred stock could make it more difficult for a third party to acquire a majority of our outstanding voting stock. As a result, common stockholders could be prevented from participating in transactions that would offer an optimal price for their shares.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are included as part of this report:

Exhibit Number	Description of Document
10.1	Amended 401K Plan
31.1	Rule 13a-14(a)/15d-14(a) Certification of Richard B. Hollis.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Daniel D. Burgess.
32.1	Section 1350 Certifications of Richard B. Hollis and Daniel D. Burgess.

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(b) Reports on Form 8-K:

On August 12, 2003, we filed a report on Form 8-K dated August 11, 2003 with the SEC announcing the conversion of all of outstanding convertible debentures.

On September 24, 2003, we filed a report on Form 8-K dated September 24, 2003, with the SEC announcing that we had presented at the Roth Capital Partners New York Conference and included a copy of our presentation.

On September 26, 2003, we filed a report on Form 8-K dated September 26, 2003 with the SEC announcing the pricing of our public offering.

On October 2, 2003, we filed a report on Form 8-K dated October 1, 2003 with the SEC announcing the closing of our public offering.

