

Edgar Filing: CYTODYN INC - Form 10-Q

reporting company" in 12(b)2 of the Exchange Act (check one)

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

--- ---

On October 21, 2010, there were 20,574,296 shares outstanding of the registrant's no par common stock.

TABLE OF CONTENTS

		PAGE

PART I	FINANCIAL INFORMATION	

Item 1	Financial Statements	

	Condensed Consolidated Balance Sheets as of February 28, 2010 (unaudited) and May 31, 2009	1
	Condensed Consolidated Statement of Operations for the Three and nine months Ended February 28, 2010 and 2009, and for the Period from October 28, 2003 to February 28, 2010 (unaudited)	2
	Condensed Consolidated Statement of Changes in Stockholders' Deficit for the Period from October 28, 2003 to February 28, 2010 (unaudited)	3
	Condensed Consolidated Statement of Cash Flows for the nine Months Ended February 28, 2010 and 2009 and for the Period from October 28, 2003 to February 28, 2010 (unaudited)	9
	Notes to Condensed Consolidated Financial Statements (unaudited)	11
Item 2	Management's Discussion and Analysis of Financial Condition ----- and Results of Operations.	21

Item 3	Quantitative and Qualitative Disclosures About Market Risk	27

Item 4	Controls and Procedures	27

PART II	OTHER INFORMATION	

Edgar Filing: CYTODYN INC - Form 10-Q

Item 1	Legal Proceedings	28
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3	Defaults Upon Senior Securities	28
Item 4	Reserved and removed	28
Item 5	Other Information	28
Item 6	Exhibits	28

PART I

Item 1. Financial Statements

Cytodyn, Inc.
(A Development Stage Company)
Condensed Consolidated Balance Sheet

	February 28, 2010 (unaudited)	May 31, 2009
	-----	-----
Assets		
Current Assets:		
Cash	\$ 987,448	\$ 265,520
Stock subscription	100,000	
Prepaid expenses	20,281	--
Prepaid license fees	7,500	7,500
	-----	-----
Total current assets	1,115,229	273,020
Furniture and equipment, net	4,066	1,963
Intangible assets, net	--	161
Other Assets	25,850	29,600
	-----	-----
	\$ 1,145,145	\$ 304,744
	=====	=====
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 252,795	\$ 269,870
Accrued liabilities	78,102	49,424
Short-term portion of legal accrual	--	25,000

Edgar Filing: CYTODYN INC - Form 10-Q

Indebtedness to related parties - short-term portion	193,985	--
Short-term portion of notes payable	12,500	67,500
Accrued interest payable	37,315	80,329
	-----	-----
Total current liabilities	574,697	492,123
Long Term Liabilities		
Accrued salaries - related party	229,500	229,500
Notes payable	--	70,500
Convertible notes payable, net	6,937	21,937
Indebtedness to related parties	--	190,985
	-----	-----
Total Liabilities	811,134	1,005,045
	-----	-----
Shareholders' Equity (Deficit):		
Series A Convertible preferred stock, no par value; 5,000,000 shares authorized, -0- and 100,000 shares issued and outstanding at February 28, 2010 and May 31, 2009, respectively	--	167,500
Series B Convertible stock preferred stock, no par value; 400,000 shares authorized, 376,100 and -0- shares issued and outstanding at February 28, 2010 and May 31, 2009, respectively	1,880,500	--
Treasury stock, at cost, -0- shares held	--	--
Additional paid-in capital - treasury stock	313,080	
Common stock, no par value; 25,000,000 shares authorized, 19,443,895 and 16,221,315 shares issued and outstanding at February 28, 2010 and May 31, 2009, respectively	6,854,804	6,285,587
Prepaid stock services	(78,861)	--
Additional paid-in capital	3,246,770	2,994,153
Accumulated deficit on unrelated dormant operations	(1,601,912)	(1,601,912)
Deficit accumulated during development stage	(10,280,370)	(8,545,629)
	-----	-----
Total shareholders' equity (deficit)	334,011	(700,301)
	-----	-----
	\$ 1,145,145	\$ 304,744
	=====	=====

See accompanying notes to condensed consolidated financial statements.

1

Cytodyn, Inc.
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended,		Nine months ended,	
	2/28/2010	2/28/2009	2/28/2010	2/28/2009
	-----	-----	-----	-----
Operating expenses:				

Edgar Filing: CYTODYN INC - Form 10-Q

General and administrative	\$ 693,972	\$ 245,671	\$ 1,459,211	\$ 906,154
Amortization / depreciation	515	2,376	1,561	7,017
Research and development	11,907	--	179,275	460,000
Legal fees	6,950	24,112	37,357	97,306
	-----	-----	-----	-----
Total operating expenses	713,344	272,159	1,677,404	1,470,477
	-----	-----	-----	-----
Operating loss	(713,344)	(272,159)	(1,677,404)	(1,470,477)
Interest income	--	--	--	--
Extinguishment of debt	--	--	--	--
Interest expense:				
Interest on convertible debt	--	--	(38,604)	--
Interest on notes payable	(3,556)	(10,986)	(18,733)	(29,406)
	-----	-----	-----	-----
Loss before income taxes	(716,900)	(283,145)	(1,734,741)	(1,499,883)
Income tax provision	--	--	--	--
	-----	-----	-----	-----
Net loss	\$ (716,900)	\$ (283,145)	\$ (1,734,741)	\$ (1,499,883)
	=====	=====	=====	=====
Basic and diluted loss per share	\$ (.04)	\$ (0.02)	\$ (.09)	\$ (.11)
	=====	=====	=====	=====
Basic and diluted weighted average common shares outstanding	18,932,673	14,663,231	18,720,934	13,807,529
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements

2

CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
Period October 28, 2003 through February 28, 2010
(unaudited)

	Preferred Stock		Common Stock		Sh
	Shares	Amount	Shares	Amount	
	-----	-----	-----	-----	-----
Balance at October 28, 2003, following recapitalization	--	--	6,252,640	\$ 1,425,334	
February through April 2004, sale of common stock less offering costs of \$54,000 (\$.30/share)	--	--	1,800,000	486,000	
February 2004, shares issued					

Edgar Filing: CYTODYN INC - Form 10-Q

to former officer as payment for working capital advance (\$.30/share)	--	--	16,667	5,000	
Net loss at year ended May 31, 2004	--	--	--	--	
Balance at May 31, 2004	--	--	8,069,307	1,916,334	
July 2004, capital contribution by an officer	--	--	--	--	
November 2004, common stock warrants granted	--	--	--	--	
February 2005, capital contribution by an officer	--	--	--	--	
Net loss at year ended May 31, 2005	--	--	--	--	
Balance at May 31, 2005	--	--	8,069,307	1,916,334	
	Treasury Stock APIC	Stock for Prepaid Services	Additional Paid-in Capital	Accumulated Deficit	De Du Deve S
Balance at October 28, 2003, following recapitalization	--	--	\$ 23,502	\$(1,594,042)	
February through April 2004, sale of common stock less offering costs of \$54,000 (\$.30/share)	--	--	--	--	
February 2004, shares issued to former officer as payment for working capital advance (\$.30/share)	--	--	--	--	
Net loss at year ended May 31, 2004	--	--	--	(7,870)	(
Balance at May 31, 2004	--	--	23,502	(1,601,912)	(
July 2004, capital contribution by an officer	--	--	512	--	
November 2004, common stock warrants granted	--	--	11,928	--	
February 2005, capital contribution by an officer	--	--	5,000	--	
Net loss at year ended May 31, 2005	--	--	--	--	(
Balance at May 31, 2005	--	--	40,942	(1,601,912)	(1,

See accompanying notes to condensed consolidated financial statements

Edgar Filing: CYTODYN INC - Form 10-Q

CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
Period October 28, 2003 through February 28, 2010
(unaudited)

	Preferred Stock		Common Stock		Sh
	Shares	Amount	Shares	Amount	
June through July 2005, sale of common stock less offering costs of \$27,867 (\$.75/share)	--	--	289,890	189,550	
August 2005, common shares issued to extinguish promissory notes payable and related interest (\$.75/share)	--	--	160,110	120,082	
May 2006, common shares issued to extinguish convertible debt	--	--	350,000	437,500	
November 2005, 94,500 warrants exercised (\$.30/share)	--	--	94,500	28,350	
January through April 2006, common shares issued for prepaid services	--	--	183,857	370,750	
Amortization of prepaid stock services	--	--	--	--	
January through June 2006, warrants issued with convertible debt	--	--	--	--	
January through May 2006, beneficial conversion feature of convertible debt	--	--	--	--	
March through May 2006, stock options granted to consultants	--	--	--	--	
	Treasury Stock APIC	Stock for Prepaid Services	Additional Paid-in Capital	Accumulated Deficit	De Accu Du Deve S
June through July 2005, sale of common stock less offering costs of \$27,867 (\$.75/share)	--	--	--	--	
August 2005, common shares issued to extinguish promissory notes payable and related interest (\$.75/share)	--	--	--	--	
May 2006, common shares issued to extinguish convertible debt	--	--	--	--	

Edgar Filing: CYTODYN INC - Form 10-Q

November 2005, 94,500 warrants exercised (\$.30/share)	--	--	--	--
January through April 2006, common shares issued for prepaid services	--	(370,750)	--	--
Amortization of prepaid stock services	--	103,690	--	--
January through June 2006, warrants issued with convertible debt	--	--	274,950	--
January through May 2006, beneficial conversion feature of convertible debt	--	--	234,550	--
March through May 2006, stock options granted to consultants	--	--	687,726	--

See accompanying notes to condensed consolidated financial statements

4

CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
Period October 28, 2003 through February 28, 2010
(unaudited)

	Preferred Stock		Common Stock		Sh
	Shares	Amount	Shares	Amount	
March 2006, stock options issued to extinguish debt	--	--	--	--	
Net loss at year ended May 31, 2006	--	--	--	--	
Balance at May 31, 2006	--	--	9,147,664	3,062,566	
Common stock issued to extinguish convertible debt	--	--	119,600	149,500	
Common stock issued for AITI acquisition	--	--	2,000,000	934,399	
Amortization of prepaid stock services	--	--	--	--	
Common stock payable for prepaid services	--	--	--	--	
Stock-based compensation	--	--	--	--	
Warrants issued with convertible debt	--	--	--	--	
Common stock issued for services	--	--	30,000	26,400	

Edgar Filing: CYTODYN INC - Form 10-Q

Preferred shares issued AGTI	100,000	167,500	--	--	
Net loss, May 31, 2007	--	--	--	--	
Balance at May 31, 2007	100,000	167,500	11,297,264	4,172,865	
	Treasury Stock APIC	Stock for Prepaid Services	Additional Paid-in Capital	Accumulated Deficit	De Accu Du Deve S
March 2006, stock options issued to extinguish debt	--	--	86,341	--	
Net loss at year ended May 31, 2006	--	--	--	--	(2,
Balance at May 31, 2006	--	(267,060)	1,324,509	(1,601,912)	(3,
Common stock issued to extinguish convertible debt	--	--	--	--	
Common stock issued for AITI acquisition	--	--	--	--	
Amortization of prepaid stock services	--	267,060	--	--	
Common stock payable for prepaid services	--	(106,521)	120,000	--	
Stock-based compensation	--	--	535,984	--	
Warrants issued with convertible debt	--	--	92,500	--	
Common stock issued for services	--	--	--	--	
Preferred shares issued AGTI	--	--	--	--	
Net loss, May 31, 2007	--	--	--	--	(2,
Balance at May 31, 2007	--	(106,521)	2,072,993	(1,601,912)	(5,

See accompanying notes to condensed consolidated financial statements

CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
Period October 28, 2003 through February 28, 2010
(unaudited)

	Preferred Stock		Common Stock		Sh
	Shares	Amount	Shares	Amount	
Amortization of prepaid stock for services	--	--	--	--	
Stock based compensation	--	--	--	--	

Edgar Filing: CYTODYN INC - Form 10-Q

Common stock issued to extinguish convertible debt	--	--	750,000	75,000
Rescission of common stock issued for services	--	--	(142,857)	(100,000)
Original issue discount convertible debt with warrants	--	--	--	--
Original issue discount convertible debt with beneficial conversion feature	--	--	--	--
Stock issued for cash (\$.50/share)	--	--	642,000	321,000
Net loss	--	--	--	--
Balance at May 31, 2008	100,000	\$ 167,500	12,546,407	\$ 4,468,865
Stock issued for cash (\$.50/share)	--	--	3,023,308	\$ 1,511,654
Stock issued for services (\$.50/share)	--	--	388,200	194,100

	Treasury Stock APIC	Stock for Prepaid Services	Additional Paid-in Capital	Accumulated Deficit	De Du Deve S
Amortization of prepaid stock for services	--	106,521	--	--	
Stock based compensation	--	--	461,602	--	
Common stock issued to extinguish convertible debt	--	--	--	--	
Rescission of common stock issued for services	--	--	--	--	
Original issue discount convertible debt with warrants	--	--	3,662	--	
Original issue discount convertible debt with beneficial conversion feature	--	--	75,000	--	
Stock issued for cash (\$.50/share)	--	--	--	--	
Net loss	--	--	--	--	(1,
Balance at May 31, 2008	--	--	\$ 2,613,257	\$(1,601,912)	\$ (6,
Stock issued for cash (\$.50/share)	--	--	--	--	
Stock issued for services					

Edgar Filing: CYTODYN INC - Form 10-Q

(\$.50/share)

--

--

--

--

See accompanying notes to condensed consolidated financial statements

6

CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
Period October 28, 2003 through February 28, 2010
(unaudited)

	Preferred Stock		Common Stock		Sh
	Shares	Amount	Shares	Amount	
Stock issued for services (\$.37/share)	--	--	150,000	55,500	
Stock based compensation	--	--	--	--	
Stock issued in payment of accounts payable, (\$.50/share)	--	--	98,000	49,000	
Stock issued for services (\$.42/share)	--	--	15,400	6,468	
Capital contribution	--	--	--	--	
Net loss ended May 31, 2009	--	--	--	--	
Balance at May 31, 2009	100,000	\$ 167,500	16,221,315	\$ 6,285,587	
Stock issued for cash (\$.50/share)	--	--	236,400	118,200	
Stock issued for cash (\$.50/share) less offering Costs of \$15,229	--	--	304,580	137,061	
Conversion of debt to Common stock (\$.45/share)	--	--	325,458	146,456	
Conversion of preferred Stock to common stock	(100,000)	(167,500)	2,356,142	167,500	
	Treasury Stock APIC	Stock for Prepaid Services	Additional Paid-in Capital	Accumulated Deficit	De Accu Du Deve S
Stock issued for services (\$.37/share)	--	--	--	--	
Stock based compensation	--	--	371,996	--	
Stock issued in payment of accounts payable, (\$.50/share)	--	--	--	--	

Edgar Filing: CYTODYN INC - Form 10-Q

Stock issued for services (\$.42/share)	--	--	--	--	
Capital contribution	--	--	8,900	--	
Net loss ended May 31, 2009	--	--	--	--	(1,
Balance at May 31, 2009	--	--	\$ 2,994,153	\$(1,601,912)	\$ (8,
Stock issued for cash (\$.50/share)	--	--	--	--	
Stock issued for cash (\$.50/share) less offering Costs of \$15,229	--	--	--	--	
Conversion of debt to Common stock (\$.45/share)	--	--	--	--	
Conversion of preferred Stock to common stock	--	--	--	--	
See accompanying notes to condensed consolidated financial statements					

7

CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
Period October 28, 2003 through February 28, 2010
(unaudited)

	Preferred Stock		Common Stock		Sh
	Shares	Amount	Shares	Amount	
Stock-based compensation	--	--	--	--	
Original issue discount Convertible debt with Beneficial conversion Feature	--	--	--	--	
Repurchase of common stock (\$.28/share)	--	--	--	--	(1,
Stock issued for cash (\$.50/share)	--	--	--	--	
Stock issued for services (\$1.45/share)	--	--	--	--	
Stock issued for cash (\$.50/share) less offering Costs of \$28,421	--	--	--	--	
Amortization of prepaid Stock for services	--	--	--	--	
Series B Convertible Preferred stock issued For cash (\$5.00/share)	376,100	1,880,500	--	--	

Edgar Filing: CYTODYN INC - Form 10-Q

Cash flows from operating activities			
Net loss	\$ (1,734,741)	\$ (1,499,883)	(10,280)
Adjustments to reconcile net loss to net cash used by operating activities:			
Amortization / depreciation	1,561	7,017	177
Extinguishment of debt	--	--	(337)
Amortization of original issue discount	38,604	--	717
Purchased in process research and development	--	--	274
Stock-based compensation	253,443	544,768	3,047
Changes in current assets and liabilities:			
Accrued legal settlement	(25,000)	(50,000)	
Prepaid expenses	(20,281)	43,842	(27)
Other assets	3,911	142	(25)
Accounts payable, accrued interest and accrued liabilities	(10,455)	32,826	667
Net cash used in operating activities	(1,492,958)	(921,288)	(5,787)
Cash flows from investing activities:			
Furniture and equipment purchases	(3,664)	(1,951)	(16)
Net cash used in investing activities	(3,664)	(1,951)	(16)
Cash flows from financing activities:			
Capital contributions by president	--	6,900	14
Proceeds from notes payable to related parties	3,000	--	705
Payments on notes payable to related parties	--	(41,842)	(120)
Proceeds from notes payable issued to individuals	--	--	145
Payments on notes payable issued to individuals	(15,000)	(7,000)	(22)
Proceeds from convertible notes payable	--	--	686
Proceeds from the sale of common stock	245,490	900,900	2,835
Proceeds from Series B Preferred stock	1,805,500	--	1,805
Purchase of treasury stock	(336,000)	--	(336)
Proceeds from issuance of treasury stock	559,210	--	559
Payments for offering costs	(43,650)	--	(125)
Proceeds from issuance of stock of AITI acquisition	--	--	512
Proceeds from issuance of stock of AGTI acquisition	--	--	100
Proceeds from exercise of warrants	--	--	28
Net cash provided by financing activities	2,218,550	858,958	6,787
Net change in cash	721,928	(64,281)	984
Cash, beginning of period	265,520	85,435	3
Cash, end of period	\$ 987,448	\$ 21,154	987
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Income taxes	\$ --	\$ --	
Interest	\$ --	\$ --	3

Edgar Filing: CYTODYN INC - Form 10-Q

9

CytoDyn, Inc.
 (A Development Stage Company)
 Consolidated Statements of Cash Flows
 (Unaudited)

	Nine months ended		October
	2/28/2010	2/28/2009	2009 thru 2/28/2009
Non-cash investing and financing transactions:			
Net assets acquired in exchange for common stock in CytoDyn/Rexray business combination	--	--	7
Common stock issued to former officer to repay working capital advance	--	--	5
Common stock issued for convertible debt	--	--	662
Common stock issued for debt	125,500	--	245
Common stock issued for accrued interest payable	20,956	--	20
Common stock issued on payment of accounts payable	--	49,000	49
Options to purchase common stock issued for debt	--	--	62
Original issue discount and intrinsic value of beneficial conversion feature related to debt issued with warrants	38,604	--	719
Common stock issued for preferred stock	167,500	--	167
Treasury stock issued for prepaid services	118,291	--	118
Stock subscription receivable - preferred stock	75,000	--	75
Stock subscription receivable - common stock	25,000	--	25

See accompanying notes to condensed consolidated financial statements

10

CYTODYN, INC.
 (A DEVELOPMENT STAGE COMPANY)
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 AS OF February 28, 2010

Edgar Filing: CYTODYN INC - Form 10-Q

(UNAUDITED)

1 - Organization:

CytoDyn, Inc. (the "Company") was incorporated under the laws of Colorado on May 2, 2002 under the name Rexray Corporation ("Rexray"). In October 2003 we entered into an Acquisition Agreement with CytoDyn of New Mexico, Inc., pursuant to which we effected a one for two reverse split of our common stock, and amended our articles of incorporation to change our name from Rexray Corporation to CytoDyn, Inc. The acquisition was accounted for as a reverse merger and recapitalization of the Company. Pursuant to the acquisition agreement, we were assigned the patent license agreement dated July 1, 1994 between CytoDyn of New Mexico and Allen D. Allen covering three United States patents along with foreign counterpart patents which describe a method for treating HIV disease with the use of monoclonal antibodies. We also acquired the trademarks, CytoDyn and Cytolin, and a related trademark symbol. The license acquired gives us the worldwide, exclusive right to develop, market, sell and profit from the HIV therapies from the patents, technology and know-how invented by Mr. Allen. The term of the license agreement is for the life of the patents. The original expiration dates on the issued patents are 2013 to 2016. There is an automatic extension of the expiration date on U.S. patents equal to the number of years the drug under the patent is being studied in clinical trials. Typically this provides another four to five years on the earliest claims. CytoDyn's counsel expects its patents to be extended until 2017 to 2020 depending upon the original date of the issued patents. As consideration for the intellectual property and trademarks we paid CytoDyn of New Mexico \$10,000 in cash and issued 5,362,640 post-split shares of common stock to CytoDyn of New Mexico.

The Company entered the development stage effective October 28, 2003 upon the reverse merger and recapitalization of the Company and follows Financial Standard Accounting Codification No. 915, Development Stage Entities.

Advanced Influenza Technologies, Inc. ("AITI") was incorporated under the laws of Florida on June 9, 2006 pursuant to an acquisition during 2006.

Advanced Genetic Technologies, Inc. ("AGTI") was incorporated under the laws of Florida on December 18, 2006 pursuant to an acquisition during 2006.

CytoDyn, Inc. discovered and is developing a class of therapeutic monoclonal antibodies to address significant unmet medical needs in the areas of HIV and AIDS.

11

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF February 28, 2010
(UNAUDITED)

2 - Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying consolidated financial statements have been prepared in

Edgar Filing: CYTODYN INC - Form 10-Q

accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and reflect all adjustments, consisting solely of normal recurring adjustments, needed to fairly present the financial results for these periods. The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q. Accordingly, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements should be read in conjunction with the financial statements for the years ended May 31, 2009 and 2008 and notes thereto in the Company's annual report on Form 10-K for the year ended May 31, 2009, filed with the Securities and Exchange Commission on August 9, 2010. Operating results for the three and nine months ended February 28, 2010 and 2009 are not necessarily indicative of the results that may be expected for the entire year. In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three and nine month periods ended February 28, 2010 and 2009 and the period October 28, 2003 through February 28, 2010, (b) the financial position at February 28, 2010, and (c) cash flows for the nine month periods ended February 28, 2010 and 2009 and the period October 28, 2003 through February 28, 2010, have been made.

Principles of Consolidation

The consolidated financial statements include the accounts of CytoDyn, Inc. and its wholly owned subsidiaries; AITI and AGTI. All intercompany transactions and balances are eliminated in consolidation.

Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company is currently in the development stage with losses for all periods presented. As of October 25, 2010 these factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to obtain additional operating capital,

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF February 28, 2010
(UNAUDITED)

complete development of its medical treatment, obtain FDA approval, outsource manufacturing of the treatment, and ultimately to attain profitability. The Company intends to seek additional funding through equity offerings to fund its business plan. There is no assurance that the Company will be successful in these endeavors.

Use of Estimates

Edgar Filing: CYTODYN INC - Form 10-Q

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less when acquired to be cash equivalents. The Company had no cash equivalents as of February 28, 2010 or May 31, 2009. The Company maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Furniture, Equipment and Depreciation

Furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally three to seven years. Maintenance and repairs are charged to expense as incurred and major improvements or betterments are capitalized. Gains or losses on sales or retirements are included in the consolidated statements of operations in the year of disposition.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of any long-lived assets under U.S. GAAP, which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying value or fair value, less costs to sell. There were no impairment charges for the three and nine months ended February 28, 2010 and 2009, and for the period October 28, 2003 through February 28, 2010.

Research and Development

Research and development costs are expensed as incurred.

13

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF February 28, 2010
(UNAUDITED)

Financial Instruments

At February 28, 2010 and May 31, 2009, the carrying value of the Company's financial instruments approximate fair value due to the short-term maturity of the instruments. The Company's notes payable have market rates of interest, and accordingly, the carrying values of the notes approximates the fair value.

Stock-Based Compensation

U.S GAAP requires companies to measure the cost of employee services received in exchange for the award of equity instruments based on the fair value of the award at the date of grant. The expense is to be recognized over the period during which an employee is required to provide services in exchange for the

Edgar Filing: CYTODYN INC - Form 10-Q

award (requisite service period). U.S. GAAP provides for two transition methods. The "modified prospective" method requires that share-based compensation expense be recorded for any employee options granted after the adoption date and for the unvested portion of any employee options outstanding as of the adoption date. The "modified retrospective" method requires that, beginning upon adoption, all prior periods presented be restated to reflect the impact of share-based compensation expense consistent with the pro forma disclosures previously required under U.S. GAAP. The Company adopted the modified prospective method, and as a result, was not required to restate its financial results for prior periods. The Company accounts for common stock options, and common stock warrants granted based on the fair market value of the instrument using the Black-Scholes option pricing model utilizing certain weighted average assumptions such as expected stock price volatility, term of the options and warrants, risk-free interest rates, and expected dividend yield at the grant date. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the stock options. The expected volatility is based on the historical volatility of the Company's common stock at consistent intervals. The Company has not paid any dividends on its common stock since its inception and does not anticipate paying dividends on its common stock in the foreseeable future. The computation of the expected option term is based on the "simplified method" as the Company's stock options are "plain vanilla" options and the Company has a limited history of exercise data. For common stock options and warrants with graded vesting, the Company recognizes the related compensation costs associated with these options and warrants on the straight-line basis over the requisite service period.

U.S GAAP requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on limited historical experience of forfeitures, the Company estimated future unvested option forfeitures at 0% as of February 28, 2010 and 2009.

14

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF February 28, 2010
(UNAUDITED)

Stock for Services

The Company issues common stock and common stock options to consultants for various services. Costs for these transactions are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The value of the common stock is measured at the earlier of (i) the date at which a firm commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete.

Earnings (Loss) per Common Share

Basic earnings (loss) per share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average common shares and potentially dilutive common share equivalents. The effects of potential common stock equivalents are not included in computations when their effect is antidilutive. Because of the net loss for the three and nine month periods ended February 28, 2010 and 2009, the basic and diluted weighted average shares outstanding are the same since including the

Edgar Filing: CYTODYN INC - Form 10-Q

additional shares would have an antidilutive effect on the loss per share calculation. Common stock option and warrants to purchase 5,094,176 and 3,326,222 shares of common stock were not included in the computation of basic and diluted weighted average common shares outstanding for the three and nine months ended February 28, 2010 and 2009, respectively. Additionally, as discussed in Note 4, the Company has 376,100 shares of convertible preferred stock that can convert into 752,200 shares of common stock upon the shareholder approval increasing the number of authorized common shares in April 2010.

Reclassification

Certain prior period amounts have been reclassified to comply with current period presentation.

3 - Recent Accounting Pronouncements:

Other recent accounting pronouncements issued by the FASB (including its EITF), the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

15

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF February 28, 2010
(UNAUDITED)

4 - Convertible instruments:

In July 2009, the Company amended certain promissory notes into convertible notes that can be converted into shares of common stock. The notes had a fixed conversion price of \$.45 per share. During the nine months ended February 28, 2010, \$146,456 in notes and accrued interest converted into 325,458 shares of common stock. At the commitment date, the conversion option associated with the notes was deemed to have a beneficial conversion feature (BCF), and the Company recorded a BCF of \$38,604 as a debt discount and corresponding increase to additional paid-in capital. For the three and nine months ended February 28, 2010, the Company recorded \$-0- and \$38,604 in interest expense as the debt discount was fully amortized upon the conversion of the notes into common stock.

In June, 2009, an investor converted 100,000 shares of Series A Preferred stock into 2,356,142 shares of restricted common stock. At the commitment date, there was no beneficial conversion feature associated with the convertible preferred stock, and accordingly, no constructive dividend was recorded by the Company.

During the nine months ended February 28, 2010 the Company issued 376,100 shares of Series B Convertible Preferred Stock (Series B) at \$5.00 per share for cash proceeds totaling \$1,805,500. The Series B is convertible into ten shares of the Company's common stock including any accrued dividend, with an effective fixed conversion price of \$.50 per share. The holders of the Series B can only convert their shares to common shares provided the Company has sufficient authorized common shares at the time of conversion. Accordingly, the conversion option is contingent upon the Company increasing their authorized common shares, which occurred April 2010. The Series B has liquidation preferences over the common

Edgar Filing: CYTODYN INC - Form 10-Q

share holders at \$5.00 per share plus any accrued dividends. Dividends are payable to the Series B holders when declared by the board of directors at \$.25 per share. The Series B holders have no voting rights.

5 - Equity:

The Company has one stock-based equity plan at February 28, 2010. The 2005 Stock Incentive Plan as amended (the "Plan") was authorized to issue options and warrants to purchase up to 2,800,000 shares of the Company's common stock. As of February 28, 2010 the Company had 448,878 shares available for future stock option grants under the plan (See Note 8).

The estimated fair value of options and warrants is determined using the Black-Scholes option valuation model with the following weighted-average assumption for the periods ended February 28, 2010 and 2009:

	2010	2009
	-----	-----
Risk free rate	--	2.56% - 2.84%
Dividend Yield	--	0.00
Volatility	--	124.00% - 156.00%
Expected term	--	3.0 years

During the nine months ended February 28, 2010 the Company granted 118,200 warrants with an exercise price of \$1.00, immediate vesting, and expiration date of five years from the date of grant. The warrants were issued in conjunction with the issuance of common stock to certain investors pursuant to a private placement, which entitled the investors to one common stock warrant for each dollar of common stock purchased. Accordingly, these warrants were not valued in the above Black-Scholes model.

16

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF February 28, 2010
(UNAUDITED)

Net cash proceeds from the exercise of stock options and warrants were \$0 for the three and nine months ending February 28, 2010 and 2009, respectively. Compensation expense related to stock options and warrants was approximately \$68,000, and \$83,000 for the three months ended February 28, 2010 and 2009, respectively, and approximately \$214,000 and \$289,000 for the nine months ended February 28, 2010 and 2009, respectively.

The grant date fair value of options vested during the nine month periods ended February 28, 2010 and 2009 was approximately \$206,000 and \$279,000, respectively. The weighted average grant date fair value of options and warrants granted during the nine month periods ended February 28, 2010 and 2009 was \$-0- and \$.30, respectively. As of February 28, 2010 there was approximately \$87,000 of unrecognized compensation costs related to share-based payments for unvested options, which is expected to be recognized over a weighted average period of ..27 years.

The following table represents stock option and warrant activity as of and for the nine months ended February 28, 2010:

Edgar Filing: CYTODYN INC - Form 10-Q

	Number of Shares	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value
Options and warrants outstanding - May 31, 2009	4,975,976	\$1.18	5.37	\$ 164,500
Granted	118,200	\$1.00		
Exercised	--			
Forfeited/expired/cancelled	--			
Options and warrants outstanding - February 28 2010	5,094,176	\$1.18	4.60	\$ 4,755,167
Outstanding exercisable - February 28, 2010	4,997,368	\$1.19	4.54	\$ 4,628,852

During the nine months ended February 28, 2010, the Company acquired \$1,200,000 shares of common stock at \$.28 per share. The shares were included at cost as part of the Company's treasury stock as of February 28, 2010. During the nine months ended February 28, 2010, the Company reissued 1,118,420 treasury shares at \$.50 per share, and realized net cash proceeds of approximately \$531,000, net of approximately \$28,000 in offering costs.

Additionally, during the nine months ended February 28, 2010, the Company reissued 81,580 shares of treasury stock for certain consulting services at \$1.45 per share, which represented the fair market value of the Company's common stock at the commitment date. The prepaid stock services are amortized over the life of the consulting agreement, and during three and nine months ended February, 2010, the Company recognized approximately \$10,000 and \$39,000 in consulting expense related to this consulting agreement, respectively.

During the nine months ended February 28, 2010, the Company issued 540,980 shares of common stock at \$.50 per share, and realized cash proceeds of approximately \$230,000, net of approximately \$15,000 in offering costs.

17

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF February 28, 2010
(UNAUDITED)

6 - Commitments and Contingencies:

Related to certain litigation whereby the Company was both a defendant and a plaintiff, the Company entered into a settlement agreement in December 2008. As part of the settlement agreement, the Company agreed to pay \$50,000 in January 2009 and \$25,000 on or before January 14, 2010 to the plaintiff. The Company paid the \$50,000 in January 2009. The remaining \$25,000 was unsecured and accrued interest at 10.0 percent per annum. The Company paid \$27,500 in January 2010. As of February 28, 2010, all amounts related to this litigation have been paid and settled.

7 - Related Party Transactions:

A director provided legal services to the Company over the past several years. As of February 28, 2010 the Company owed the director \$43,985 and it is included

Edgar Filing: CYTODYN INC - Form 10-Q

in the accompanying consolidated financial statements as "indebtedness to related parties" as of February 28, 2010. As of February 28, 2010 no arrangements had been made for the Company to repay the balance of this obligation. The amount has been classified as short-term, as the amount is payable on demand. The Company anticipates that the director will continue to provide legal services in the future.

In May and July 2007, the Company issued \$150,000 in promissory notes with a stated interest rate of 14%, and a maturity date of six months from the issuance date. The notes were originally issued to an unrelated third-party, who subsequently became director of the Company during 2008. Accordingly, the notes are classified as related party notes as of February 28, 2010. The notes have no stated maturity, and are essentially payable upon demand. Accordingly, the Company has Classified the balance of \$150,000 as short-term obligation as of February 28, 2010.

18

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF February 28, 2010
(UNAUDITED)

8 - Subsequent Events:

In September 2009, the Company entered into an agreement with Massachusetts General Hospital (MGH) to provide financial support for the purpose of conducting an ex-vivo study of the Company's lead drug, Cytolin(R). This study is intended as a prelude to an in-vivo study. Costs are estimated at approximately \$550,000 of which 50%, or \$275,000, was paid to Massachusetts General Hospital by March 2010. During 2009 the Company agreed to provide an additional \$204,000 to Massachusetts General Hospital for the current clinical trial of Cytolin(R). Additionally, per the agreement with MGH, the Company is obligated to pay an additional \$137,000 by October 21, 2010. This amount is included in the cost above. This will enable the Principal Investigator to hire additional personnel in order to ensure that key data from the study will be available by December 31, 2010.

In January 2010, the Company approved the grant of 2,177,238 stock options to employees and consultants. The options have an exercise price of \$1.95, expire ten years from grant, and vest over three years. The grant is contingent upon the shareholder approval of the increase in the authorized common shares from 25 to 100 million shares as discussed below.

In September 2009, the Company's Board of Directors approved a Private Placement to sell up to 400,000 shares of the Company's Series B Convertible Preferred Stock, no par value. This offering was only available to accredited investors as defined under the 1933 Securities Act ("The Act"). The offering commenced on or about September 23, 2009 and was completed on March 29, 2010. All 400,000 shares were sold and the gross proceeds from the sale were \$2,000,000. Each share of Series B Convertible Preferred Stock will receive a 5% annual dividend and is convertible into ten (10) shares of Common Stock. The conversion option is contingent upon shareholder approval of the increase in the authorized common shares from 25 to 100 million shares as discussed below.

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF February 28, 2010
(UNAUDITED)

In October 2009, the Company's Board of Directors approved a Private Placement to sell up to 2,000,000 shares of the Company's common stock, no par value, at a price of \$.50 per share. The offering commenced on or about November 2009 and was completed on March 29, 2010. All 2,000,000 shares were sold for proceeds totaling \$1,000,000.

In May 2010, the Company purchased 200,000 shares of common stock at \$.50 per share.

In February 2010, the Company negotiated a contract with Vista Biologicals Corporation to manufacture a humanized version of the Company's lead product, Cytolin(R) at a cost of \$229,500, which will be paid over twelve (12) months beginning in March 2010. \$136,000 was paid by September 2010.

In April 2010, the Board issued 200,000 warrants to purchase the Company's common stock to Eware and Evolution Holdings, LLC with an exercise price of \$2.00 per share. The warrants expire September 12, 2010.

In April 2010, the Board authorized the conversion of promissory notes totaling \$9,000 into common stock at \$.45 per share.

On April 24, 2010 the Company's shareholders approved an amendment to the Company's Articles of Incorporation increasing the number of authorized shares of common stock from 25,000,000 to 100,000,000 shares effective as of April 29, 2010. The shareholders also approved to increase the number of shares available in the Company's Stock Option and Incentive plan from 2,000,000 to 5,000,000.

In July 2010, two of the Company's executives forgave approximately \$230,000 in accrued salaries that are included as "Accrued salaries - related party" at February 28, 2010.

In August 2010, the Company renewed the office lease for \$1,650 per month for one year.

In August 2010 the Company's Board of Directors approved a private placement offering to sell 2,000,000 shares of the Company's no par common stock to accredited investors at \$1.00 per share. The Company has raised approximately \$231,000 in cash related to this private placement.

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

Edgar Filing: CYTODYN INC - Form 10-Q

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the related notes thereto included in this Quarterly Report on Form 10-Q. The discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). These forward-looking statements are based on our current expectations and entail various risks and uncertainties. Our actual results could differ materially from those projected in the forward-looking statements as a result of various factors including those set forth in "Risk Factors" of the Company's May 31, 2009 Form 10-K.

Background of our Company

CytoDyn, Inc. discovered and is developing a class of therapeutic monoclonal antibodies to address significant unmet medical needs in the area of HIV/AIDS. CytoDyn, Inc. has sponsored a research grant to Massachusetts General Hospital in Boston, Massachusetts, to design and sponsor clinical trials in addition to conducting those trials on our lead product Cytolin(R), an immune therapy intended to treat early HIV infection. Although CytoDyn, Inc. will retain all of its intellectual property rights and will have access to the study data, the data will be owned by Massachusetts General Hospital (MGH). A chief benefit for CytoDyn, Inc. is that the Company will not have to deal directly with the FDA. Moreover, the high costs and long delays associated with the FDA's oversight of clinical trials may be significantly reduced in the case of clinical trials designed and sponsored by a leading teaching hospital.

The FDA licenses medicinal products for sale in interstate commerce under a particular label. Only if they receive data supporting that label and only if some company asks them to do so. CytoDyn may or may not be the company that requests a license to market Cytolin(R) under a label. Under our current thinking we hope to enter into a strategic alliance after the next two studies under which a larger pharmaceutical marketing company will seek a license from the FDA to market Cytolin(R) and under a license from us to use our intellectual property in that manner. However there is no guarantee that we will wind up pursuing this strategy.

21

We negotiated with a contract manufacturer Vista Biologicals Corporation to manufacture GMP product for the current clinical trial of Cytolin(R) at a cost of \$565,000, all of which was paid by September 2008. The initial clinical trial is being conducted by Massachusetts General Hospital will cost the Company approximately \$550,000 of which \$275,000 was paid by March 18, 2010. Per our agreement the Company owes another \$137,500 to MGH by October 21, 2010. The Company has the funds available to satisfy this payment due.

We negotiated a contract with manufacturer Vista Biologicals Corporation to manufacture a humanized version of the company's lead product, Cytolin(R) at a cost of \$229,500, which will be paid over twelve (12) months beginning in March 2010. \$136,000 was paid by September 2010. Although a murine (mouse) version of Cytolin(R) was used for previous human experience that included some 200 patients successfully treated for up to two years, as well as an encouraging Phase I(b)/II(a) study, the Company believes that a fully-humanized version is necessary for the clinical trial that is expected to follow the current one.

The Company expects to have its proprietary, fully-humanized version of Cytolin(R) ready for bulk manufacturing in 2010 in time for a possible follow-up clinical trial.

Edgar Filing: CYTODYN INC - Form 10-Q

Human subjects have been recruited for the initial study conducted by Massachusetts General Hospital from the clinic of the Principal Investigator, Dr. Eric Rosenberg. The study protocol calls for 10 adults with early HIV infection and 10 healthy control subjects. The enrollment was closed as of July 23, 2010 therefore we expect the study to be completed by January 2011.

We registered a clinical trial of Cytolin(R) with the government's website at www.clinicaltrials.gov, ID NCT01048372. The public has online access to this federal database, which describes the key elements of clinical trials and their status. To peruse the continually updated public record for the study of Cytolin(R) on the government's website, enter "Cytolin" as search terms (case sensitive).

Subsequently, CytoDyn, Inc. may fund a follow-up clinical trial at Massachusetts General Hospital using venture capital or, at that time, may enter into a strategic alliance for completion of research and the subsequent marketing of Cytolin(R) if approved. In the former case, CytoDyn, Inc. will need to provide a new batch of humanized product, which we estimate will cost on the order of another half million dollars. The Company is conducting a private placement of common shares to secure the capital needed for the follow-up study. We cannot estimate what the hospital's research grant will be at this time until the hospital has provided those estimates.

There are many factors that can delay clinical trial benchmarks. However, the Company hopes to receive the results and analysis of the upcoming clinical trial during 2010.

22

Benchmark	Some Factors That Can Cause Delays+
Patient Outreach	Manufacturing Delays Documentation Delays IRB Delays Delays in Regulatory Review or Approval Force Majeure
Dose First Patient	Fill and Finish Delays Slower Than Expected Patient Enrollment Force Majeure
Lock Database - Begin Statistical Analysis	Slower Than Expected Patient Enrollment Clinical Hold Laboratory Error Protocol Deviation Force Majeure
Release Final Report	Additional Stratification Required Computer Hardware or Software Malfunction Force Majeure

+There are other factors, known and unknown, such as unexpected financial hardships, that can cause delays.

Clinical Trials Process - Described below is the traditional drug development track. Under the Company's current business plan, much of this initial work will

Edgar Filing: CYTODYN INC - Form 10-Q

be sponsored and conducted by the MGH, eliminating the need for CytoDyn to deal directly with the FDA. Traditionally, the Company would enter into a strategic alliance with a larger pharmaceutical company after development has progressed to a certain point. While there can be no guarantee that this will occur in our case, if it does, then our larger partner would usually be responsible for dealing with the FDA.

Phase I

Phase I includes the initial introduction of an investigational new drug or biologic into humans. These studies are closely monitored and may be conducted in patients, but are usually conducted in a small number of healthy volunteer subjects. These studies are designed to determine the metabolic and pharmacologic actions of the investigational product in humans, the side effects associated with increasing doses, and, if possible, to gain early evidence on effectiveness. During Phase I, sufficient information about the investigational product's pharmacokinetics and pharmacological effects are obtained to permit the design of well-controlled, scientifically valid, Phase II studies.

Phase II

Phase II includes the early controlled clinical studies conducted to obtain some preliminary data on the effectiveness of the drug for a particular indication or indications in patients with the disease or condition. This phase of testing also helps determine the common short-term side effects and risks associated with the drug. Phase II studies are typically well-controlled, closely monitored, and conducted in a relatively small number of patients, usually involving several hundred people. Depending upon need, a new drug may be licensed for interstate marketing after Phase II if it is a "pivotal" study.

Phase III

Phase III studies are expanded controlled clinical studies. They are performed after preliminary evidence suggesting effectiveness of the drug has been obtained in Phase II, and are intended to gather the additional information about effectiveness and safety that is needed to evaluate the overall benefit/risk relationship of the drug. Phase III studies also provide an adequate basis for extrapolating the results to the general population and transmitting that information in the physician labeling. Phase III studies usually include several hundred to several thousand people.

23

Patents

We have a License Agreement with Allen D. Allen, our President and CEO that gives us the exclusive right to develop, market, sell and profit from his technology worldwide. This includes issued U.S. patents 5,424,066; 5,651,970 and 6,534,057, foreign counterparts, as well as European Patents No. 94 912826.8 and 04101437.4. Hong Kong, Australian and Canadian patents have been obtained as well. The original expiration dates of the U.S. patents are 2013 to 2016. There is an automatic extension of the expiration date on U.S. patents equal to the number of years the drug under the patent is being studied in clinical trials. Typically this provides another four to five years on the earliest claims. CytoDyn's counsel expects its patents to be extended until 2017 to 2020 depending upon the original date of the issued patents. We estimate the costs associated with these issued patents to be approximately \$100,000 per year. We intend to file additional patents during the current fiscal year if our research

Edgar Filing: CYTODYN INC - Form 10-Q

and development efforts go as planned.

Going Concern

We will require additional funding in order to continue with research and development efforts.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, the Company is currently in the development stage with losses for all periods presented. As of October 25, 2010 these factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to obtain additional operating capital, complete development of its medical treatments, obtain FDA approval, outsource manufacturing of the treatments, and ultimately to attain profitability. The Company intends to seek additional funding through equity offerings or licensing agreements to fund its business plan. There is no assurance that the Company will be successful in these endeavors.

24

Results of Operations

Results of Operations for the three months ended February 28, 2010 and 2009 are as follows:

For the three months ended February 28, 2010 and 2009 we had no activities that produced revenues from operations.

For the three months ended February 28, 2010, we had a net loss of \$(716,900) compared to a net loss of \$(283,145) for the corresponding period in 2009. For the three months ended February 28, 2010 and 2009, we incurred operating expenses of \$(713,344) and \$(272,159) consisting primarily of, consulting expense, stock-based compensation, legal fees, and salaries.

The increase in operating expenses of \$441,185 from the three month period February 28, 2010 compared to the three months ended February 28, 2009 related primarily to increases in research and development of approximately \$12,000, increases in salaries, consulting, and professional fees included in general and administrative expenses. Research and development expenses are associated with the development of our lead product Cytolin (R). In the future, we expect to have significant increases in research and development expenses as our clinical trials for Cytolin (R) move forward as discussed above.

Results of Operations for the nine months ended February 28, 2010 and 2009 are as follows:

For the nine months ended February 28, 2010 and 2009 we had no activities that produced revenues from operations.

For the nine months ended February 28, 2010, we had a net loss of \$(1,734,741) compared to a net loss of \$(1,499,883) for the corresponding period in 2009. For

Edgar Filing: CYTODYN INC - Form 10-Q

the nine months ended February 28, 2010 and 2009, we incurred operating expenses of \$(1,677,404) and \$(1,470,477) consisting primarily of, consulting expense, stock-based compensation, legal fees, research and development and salaries.

The increase in operating expenses of \$206,927 from the nine month period February 28, 2010 compared to the nine months ended February 28, 2009 related primarily to a decrease in research and development expenses of approximately \$281,000, offset by increases in general and administrative expenses related to salaries, consulting expenses, professional fees and investor relations. Research and development expenses are associated with the development of our lead product Cytolin (R). As discussed above in our background, we negotiated a contract with a manufacturer in September 2008 to manufacture product that will be used in clinical trials going forward. This resulted in significant expense for the nine months ended February 28, 2009. However, going forward we expect to have significant increases in research and development expenses as our clinical trials for Cytolin (R) move forward as discussed above. Additionally, we expect our operating expenses such as salaries and consulting expenses to increase as our product moves forward through clinical trials.

25

Interest expense increased approximately \$28,000 for the nine months ended February 28, 2010 compared to the corresponding period in 2009 primarily due to approximately \$39,000 in interest expense associated with our beneficial conversion feature related to the conversion option with convertible notes. This was offset by a decrease in interest expense on notes payable of approximately \$10,000, as there was less principal outstanding in 2010 relative to 2009 as notes were converted or paid.

Liquidity and Capital Resources

As shown in the accompanying Financial Statements, for the nine months ended February 28, 2010 and 2009, and since October 28, 2003 through February 28, 2010 the Company has had net losses of \$(1,734,741) and \$(1,499,883) and \$(10,280,370), respectively. As of February 28, 2010, the Company has not emerged from the development stage. In view of these matters, the Company's ability to continue as a going concern is dependent upon the Company's ability to begin operations and to achieve a level of profitability. Since inception, the Company has financed its activities principally from the sale of public equity securities and proceeds from notes payable. The Company intends on financing its future development activities and its working capital needs largely from the sale of public equity securities with some additional funding from other traditional financing sources.

As previously mentioned, since October 28, 2003, we have financed our operations largely from the sale of common and preferred stock and proceeds from notes payable. From October 28, 2003 through February 28, 2010 we raised cash of approximately \$5,075,000 (net of offering costs) in common and preferred stock financings and approximately \$1,537,000 through the issuance notes payable.

Since October 28, 2003 through February 28, 2010, we have incurred \$1,599,000 of research and development costs and approximately \$9,789,000 in operating expenses.

We have incurred significant net losses and negative cash flows from operations since our inception. As of February 28, 2010, we had an accumulated deficit of approximately \$(11,882,000) and working capital of approximately \$541,000. Our working capital is a direct result of our recent equity offerings.

We anticipate that cash used in product development and operations, especially

Edgar Filing: CYTODYN INC - Form 10-Q

in the marketing, production and sale of our products will increase significantly in the future.

In October 2009, the Company's Board of Directors approved a Private Placement to sell up to 2,000,000 shares of the Company's common stock, no par value, at a price of \$.50 per share. The offering commenced on or about November 2009 and was completed on March 29, 2010. All 2,000,000 shares were sold for proceeds totaling \$1,000,000.

In September 2009, the Company authorized the raise of \$2,000,000 through a Private Placement Offering of preferred shares. The Company amended its articles and designated 400,000 preferred shares Series B to be sold at \$5.00 per share. The preferred shares are convertible into common shares at \$.50 per share or 10 shares of common for every preferred share issued. The Company raised \$2,000,000 of cash related to this private placement. This offer was completed March 31, 2010.

26

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d015(e) under the Exchange Act) as of the nine month period ending February 28, 2010 covered by this quarterly report on Form 10Q. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were not effective as required under Rules 13a015(e) and 15d-15(e) under the Exchange Act. This conclusion by the Company's Chief Executive Officer and Chief Financial Officer does not relate to reporting periods after February 28, 2010.

Changes in Control Over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the quarter ended February 28, 2010, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

27

Part II

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity and Use of Proceeds

During the three months ended February 28, 2010, the Company sold a total of

Edgar Filing: CYTODYN INC - Form 10-Q

873,000 shares of its common stock at a price of \$.50 per share to investors in a private offering and paid commissions of approximately \$43,000. In connection with the sales, the Company relied on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended and Rule 506 under the Act. The investors were all "accredited investors" as such term is defined in Rule 501 of Regulation D.

During the three months ended February 28, 2010, the Company sold 251,100 shares of its Series B Convertible Preferred Stock at a price of \$5.00 per share to investors in a private offering. Each share of Series B Preferred is convertible into ten shares of the Company's common stock. In connection with the sales, the Company relied on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 under the Act. The investors were all "accredited investors" as such term is defined in Rule 501 of Regulation D.

Item 3. Defaults Upon Senior Securities

None

Item 4. Reserved and removed

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

- 1. 31.1: Certification by the CEO
- 2. 31.2: Certification by the CFO
- 3. 32.1: Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - CEO
- 4. 32.2: Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - CFO

SIGNATURES

CYTODYN, INC.
Registrant)

DATE: October 25, 2010

BY: /s/ Allen D. Allen

Allen D. Allen
President and CEO