

Edgar Filing: CYTODYN INC - Form 10-Q

CYTODYN INC
Form 10-Q
December 14, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
--- OF THE SECURITIES EXCHANGE ACT OF 1934

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES ACT OF 1933

For Quarter Ended: August 31, 2010 Commission File Number 000-49908

CYTODYN, INC.

(Exact name of registrant as specified in its charter)

75-3056237

(I.R.S. Employer Identification No.)

COLORADO

State or other jurisdiction
of incorporation organization

1511 Third Street, Santa Fe, 87505

(Address of principal executive offices) (Zip code)

(Registrant's telephone number, including area code) (505) 988-5520

(Former address, changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
--- ---

Indicate by check mark whether the registrant is a large accelerated filer, and an accelerated filer, a non-accelerated filer, or a smaller reporting company. See Definition of "accelerated filer, large accelerated filer, and smaller reporting company" in 12(b)2 of the Exchange Act (check one)

Edgar Filing: CYTODYN INC - Form 10-Q

Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3	Defaults Upon Senior Securities	25
Item 4	Reserved and removed	25
Item 5	Other Information	25
Item 6	Exhibits	25

PART I

Item 1. Financial Statements

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

	August 31, 2010 (unaudited)	May 31, 2010
	-----	-----
Assets		
Current Assets:		
Cash	\$ 411,848	\$ 700,497
Prepaid insurance	17,141	12,127
Prepaid license fees	7,500	7,500
	-----	-----
Total current assets	436,489	720,124
Furniture and equipment, net	6,480	3,549
Other Assets	22,100	23,975
	-----	-----
	\$ 465,069	\$ 747,648
	=====	=====
Liabilities and Shareholders' equity		
Current liabilities:		
Accounts payable	\$ 177,517	\$ 178,956
Accrued liabilities	10,225	15,209
Indebtedness to related parties - short-term portion	153,985	153,985
Accrued interest payable	14,328	25,575
	-----	-----
Total current liabilities	356,055	373,725

Edgar Filing: CYTODYN INC - Form 10-Q

Long Term Liabilities		
Accrued salaries - related party	--	229,500
Convertible notes payable, net	6,937	6,937
	-----	-----
Total Liabilities	362,992	610,162
	-----	-----
Shareholders' equity:		
Series B Convertible preferred stock; No par value; 400,000 share authorized; 374,000 and 400,000 shares issued and outstanding at August 31, 2010 and May 31, 2010, respectively	1,878,415	2,009,000
Treasury stock at cost, 200,000 shares held at August 31, 2010 and May 31, 2010, respectively	(100,000)	(100,000)
Additional paid-in capital-treasury stock	313,080	313,080
Common stock; no par value; 100,000,000 shares authorized; 20,401,895 and 20,075,895 shares outstanding at August 31, 2010 and May 31, 2010, respectively	7,341,889	7,145,304
Additional paid-in capital	5,166,643	4,703,875
Prepaid stock services	(19,715)	(49,288)
Accumulated deficit on unrelated dormant operations	(1,601,912)	(1,601,912)
Deficit accumulated during development stage	(12,876,323)	(12,282,573)
	-----	-----
Total shareholders' equity	102,077	137,486
	-----	-----
	\$ 465,069	\$ 747,648
	=====	=====

See accompanying notes to condensed consolidated financial statements.

1

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

	Three months ended,		October 28,
	8/31/2010	8/31/2009	2003 through 8/31/2010
	-----	-----	-----
Operating expenses:			
General and administrative	\$ 557,430	\$ 248,905	\$ 9,683,063
Amortization / depreciation	549	585	178,518
Research and development	27,250	6,490	1,775,953
Legal fees	4,436	19,559	737,005
	-----	-----	-----
Total operating expenses	589,665	275,539	12,374,539
	-----	-----	-----
Operating loss	(589,665)	(275,539)	(12,374,539)

Edgar Filing: CYTODYN INC - Form 10-Q

Interest income	--	--	1,627
Extinguishment of debt	--	--	337,342
Interest expense:			
Interest on convertible debt	--	(38,604)	(734,863)
Interest on notes payable	(4,085)	(9,086)	(105,890)
	-----	-----	-----
Loss before income taxes	(593,750)	(323,229)	(12,876,323)
Income tax provision	--	--	--
	-----	-----	-----
Net loss	\$ (593,750)	\$ (323,229)	\$ (12,876,323)
	=====	=====	=====
Constructive preferred Stock dividends	--	--	(6,000,000)
	-----	-----	-----
Net loss applicable to Common shareholders	\$ (593,750)	\$ (323,229)	\$ (18,876,323)
Basic and diluted loss per share	\$ (.03)	\$ (0.02)	\$ (1.59)
	=====	=====	=====
Basic and diluted weighted average common shares outstanding	19,975,112	18,174,179	11,888,394
	=====	=====	=====

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 August 31, 2010

	Preferred Stock		Common Stock	
	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 to former officer as payment for working capital advance (\$.30/share)	--	--	16,667	5,000
Net loss at year ended May 31, 2004	--	--	--	--
	-----	-----	-----	-----

Edgar Filing: CYTODYN INC - Form 10-Q

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	Acc Dev
	-----	-----	-----	-----	-----
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)	(

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 August 31, 2010

	Preferred Stock		Common Stock	
	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
	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 August 31, 2010

	Preferred Stock		Common Stock	
	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
March 2006, stock options issued to extinguish debt	--	--	86,341	--
Net loss at year ended May 31, 2006	--	--	--	--
Balance at May 31, 2006	--	(267,060)	1,324,509	(1,601,912)
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 Warrants issued with convertible debt	--	--	535,984	--
Common stock issued for services	--	--	92,500	--
Preferred shares issued AGTI	--	--	--	--
Net loss, May 31, 2007	--	--	--	--
Balance at May 31, 2007	--	(106,521)	2,072,993	(1,601,912)

See accompanying notes to condensed consolidated financial statements

5

CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
Period October 28, 2003 through August 31, 2010

	Preferred Stock		Common Stock	
	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	
					Acc
	Treasury Stock APIC	Stock for Prepaid Services	Additional Paid-in Capital	Accumulated Deficit	Dev
	-----	-----	-----	-----	-----
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	--	--	--	--	(
Balance at May 31, 2008	--	--	\$ 2,613,257	\$ (1,601,912)	\$ (
Stock issued for cash (\$.50/share)	--	--	--	--	
Stock issued for services					

Edgar Filing: CYTODYN INC - Form 10-Q

Stock issued for services (\$.42/share)	--	--	--	--	
Capital contribution	--	--	8,900	--	
Net loss ended May 31, 2009	--	--	--	--	
Balance at May 31, 2009	-----	-----	\$ 2,994,153	\$ (1,601,912)	\$ (
Stock issued for cash (\$.50/share)	--	--	--	--	
Stock issued for cash (\$.50/share) less offering Costs of \$28,000	--	--	--	--	
Stock issued for cash (\$.50/share) less offering Costs of \$15,229	--	--	--	--	
Conversion of debt to Common stock (\$.45/share)	--	--	--	--	
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 August 31, 2010

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
Conversion of preferred Stock to common stock	(100,000)	(167,500)	2,356,142	167,500
Stock-based compensation	--	--	--	--
Original issue discount Convertible debt with Beneficial conversion Feature	--	--	--	--
Repurchase of common stock (\$.28/share)	--	--	--	--
Repurchase of common stock (\$.50/share)	--	--	--	--
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	--	--	--	--

Edgar Filing: CYTODYN INC - Form 10-Q

	Treasury Stock APIC	Stock for Prepaid Services	Additional Paid-in Capital	Accumulated Deficit	Acc Dev
	-----	-----	-----	-----	-----
Conversion of preferred Stock to common stock	--	--	--	--	
Stock-based compensation	--	--	1,671,118	--	
Original issue discount Convertible debt with Beneficial conversion Feature	--	--	38,604	--	
Repurchase of common stock (\$.28/share)	--	--	--	--	
Repurchase of common stock (\$.50/share)	--	--	--	--	
Stock issued for cash (\$.50/share)	123,000	--	--	--	
Stock issued for services (\$1.45/share)	95,449	(118,291)	--	--	
Stock issued for cash (\$.50/per share) less offering Costs of \$28,421	94,631	--	--	--	

See accompanying notes to condensed consolidated financial statements

8

CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Equity
Period October 28, 2003 through August 31, 2010

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Amortization of prepaid Stock for services	--	--	--	--
Series B Convertible Preferred stock issued For cash (\$5.00/share)	400,000	2,009,000	--	--
Net Loss, ended May 31, 2010	--	--	--	--
Balance at May 31, 2010	400,000	\$ 2,009,000	20,075,895	\$ 7,145,304
Conversion of Series B Convertible Preferred Stock to Common Stock	(26,000)	(130,585)	260,000	130,585

Edgar Filing: CYTODYN INC - Form 10-Q

Stock issued for cash (\$1.00/share) (unaudited)	--	--	66,000	66,000	
Balance at August 31, 2010	374,000	\$ 1,878,415	20,401,895	\$ 7,341,889	
	Treasury Stock APIC	Stock for Prepaid Services	Additional Paid-in Capital	Accumulated Deficit	
Amortization of prepaid Stock for services	--	69,003	--	--	
Series B Convertible Preferred stock issued For cash (\$5.00/share)	--	--	--	--	
Net Loss, ended May 31, 2010	--	--	--	--	
Balance at May 31, 2010	\$ 313,080	\$ (49,288)	\$ 4,703,875	\$ (1,601,912)	
Conversion of Series B Convertible Preferred Stock to Common Stock	--	--	--	--	
Stock issued for cash (\$1.00/share) (unaudited)	--	--	--	--	
Stock-based compensation (unaudited)	--	--	233,268	--	
Capital contribution (unaudited)	--	--	229,500	--	
Amortization of prepaid Stock for services (unaudited)	--	29,573	--	--	
Net Loss, ended August 31, 2010 (unaudited)	--	--	--	--	
Balance at August 31, 2010	\$ 313,080	\$ (19,715)	\$ 5,166,643	\$ (1,601,912)	

See accompanying notes to condensed consolidated financial statements

Edgar Filing: CYTODYN INC - Form 10-Q

	3 months ended		2003
	8/31/2010	8/31/2009	thru 8/31/2008
Cash flows from operating activities			
Net loss	\$ (593,750)	\$ (323,229)	(12,876)
Adjustments to reconcile net loss to net cash used by operating activities:			
Amortization / depreciation	549	585	178
Amortization of original issue discount	--	38,604	717
Extinguishment of debt	--	--	(337)
Purchased in process research and development	--	--	274
Stock-based compensation	262,841	78,171	4,796
Changes in current assets and liabilities:			
Prepaid expenses	(5,014)	(7,933)	(24)
Other assets	1,875	1,875	(22)
Accounts payable, accrued interest and accrued liabilities	(17,670)	(74,890)	501
Net cash used in operating activities	(351,169)	(286,817)	(6,791)
Cash flows from investing activities:			
Furniture and equipment purchases	(3,480)	(2,002)	(19)
Net cash used in investing activities	(3,480)	(2,002)	(19)
Cash flows from financing activities:			
Capital contributions by president	--	--	14
Proceeds from notes payable to related parties	--	--	705
Payments on notes payable to related parties	--	--	(160)
Proceeds from notes payable issued to individuals	--	--	145
Payments on notes payable issued to individuals	--	--	(34)
Proceeds from convertible notes payable	--	--	686
Proceeds from the sale of common stock	66,000	118,200	3,245
Proceeds from Series B preferred stock	--	--	2,009
Purchase of treasury stock	--	--	(436)
Proceeds from sale of treasury stock	--	--	559
Payments for offering costs	--	--	(153)
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	66,000	118,200	7,220
Net change in cash	(288,649)	(170,619)	408
Cash, beginning of period	700,497	265,520	3
Cash, end of period	\$ 411,848	\$ 94,901	411
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Income taxes	\$ --	\$ --	
Interest	\$ 15,400	\$ --	18

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

	3 months ended		October
	8/31/2010	8/31/2009	2003 throu 8/31/2
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
Accrued salaries related party contributed as capital	229,500	--	229
Common stock issued on payment of accounts payable	--	--	49
Options to purchase common stock issued for debt	--	--	62
Original issue discount and intrinsic value of beneficial conversion feature related to debt	--	38,604	719
Common stock issued for preferred stock	--	167,500	167
Treasury stock issued for prepaid services	--	--	118
Common stock issued for preferred stock	130,585	--	130

See accompanying notes to condensed consolidated financial statements

Edgar Filing: CYTODYN INC - Form 10-Q

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AUGUST 31, 2010
(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 the Company entered into an Acquisition Agreement with CytoDyn of New Mexico, Inc., pursuant to which the Company effected a one for two reverse split of our common stock, and amended the Company's articles of incorporation to change the Company's 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, the Company was 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. The Company also acquired the trademarks, CytoDyn and Cytolin, and a related trademark symbol. The license acquired gives the Company the worldwide, exclusive right to develop, market and sell 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 the Company 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.

Edgar Filing: CYTODYN INC - Form 10-Q

2 - Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying consolidated financial statements have been prepared in 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, 2010 and 2009 and notes thereto in the Company's annual report on Form 10-K for the year ended May 31, 2010, filed with the Securities and Exchange Commission on December 3, 2010. Operating results for the three months ended August 31, 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 month periods ended August 31, 2010 and 2008 and the period October 28, 2003 through August 31, 2010, (b) the financial position at August 31, 2010, and (c) cash flows for the three month periods ended August 31, 2010 and 2009 and the period October 28, 2003 through August 31, 2010, have been made.

Principles of Consolidation

The consolidated financials statements include the accounts of CytoDyn, Inc. and its wholly owned subsidiaries; AITI and AIGI 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 December 14, 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, 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 or licensing agreements to fund its business plan. There is no assurance that the Company will be successful in these endeavors.

Edgar Filing: CYTODYN INC - Form 10-Q

Use of Estimates

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 August 31, 2010 or May 31, 2010. 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 months ended August 31, 2010 and 2009, and for the period October 28, 2003 through August 31, 2010.

Research and Development

Research and development costs are expensed as incurred.

Financial Instruments

At August 31, 2010 and May 31, 2010, 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

Edgar Filing: CYTODYN INC - Form 10-Q

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 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 August 31, 2010 and 2009.

15

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AUGUST 31, 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

Edgar Filing: CYTODYN INC - Form 10-Q

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 month periods ended August 31, 2010 and 2009, the basic and diluted weighted average shares outstanding are the same since including the additional shares would have an antidilutive effect on the loss per share calculation. Common stock option and warrants to purchase 7,660,176 and 5,094,176 shares of common stock were not included in the computation of basic and diluted weighted average common shares outstanding for the three months ended August 31, 2010 and 2009, respectively. Additionally, 374,000 shares of Series B convertible stock can potentially convert into 3,740,000 shares of restricted common stock.

Reclassification

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

3 - Recent Accounting Pronouncements:

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 financial statements.

4 - Convertible Securities:

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 three months ended August 31, 2009, \$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 months ended August 31, 2009, the Company recorded \$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 fiscal year 2010 the Company issued 400,000 shares of Series B Convertible Preferred Stock (Series B) at approximately \$5.00 per share for cash proceeds totaling \$2,009,000. 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 when the Company's shareholders voted at a special meeting to increase the authorized shares. At the commitment date, which occurred upon the shareholders approving the increase in the authorized shares, the conversion option related to the Series B was beneficial. The intrinsic value of the conversion option at the commitment date resulted in a constructive dividend to the Series B holders of approximately \$6,000,000. The series B has no mandatory conversion feature or any net cash settlement features, and accordingly, was deemed to be a component of equity. The constructive dividend increased and decreased additional paid-in capital by the same amount. The Series B has liquidation preferences over the common 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.

Edgar Filing: CYTODYN INC - Form 10-Q

16

CYTODYN, INC.
 (A DEVELOPMENT STAGE COMPANY)
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 AS OF AUGUST 31, 2010
 (UNAUDITED)

5 - Equity:

The Company has one stock-based equity plan at August 31, 2010. The 2005 Stock Incentive Plan as amended (the "Plan") was authorized to issue options and warrants to purchase up to 5,000,000 shares of the Company's common stock. As of August 31 2010 the company had 3,398,878 shares available for future stock option grants under the plan.

During the three months ended August 31, 2010 and 2009 the Company granted -0- and 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.

Net cash proceeds from the exercise of stock options and warrants were \$0 for the three months ending August 31, 2010 and 2009, respectively. Compensation expense related to stock options and warrants was approximately \$233,000, and \$78,000 for the three months ended August 31, 2010 and, 2009, respectively.

The grant date fair value of options vested during the three month periods ended August 31, 2010 and 2009 was approximately \$233,000 and \$74,000, respectively. The weighted average grant date fair value of options and warrants granted during the three month periods ended August 31, 2009 and 2008 was \$-0-, respectively. As of August 31, 2010 there was approximately \$2,000,000 of unrecognized compensation costs related to share-based payments for unvested options, which is expected to be recognized over a weighted average period of 2.57 years.

The following table represents stock option and warrant activity as of and for the three months ended August 31, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	-----	-----	-----	-----
Options and warrants				
outstanding - May 31, 2010	7,660,176	\$1.42	5.41	\$ 2,761,129
Granted	--			
Exercised	--			
Forfeited/expired/cancelled				
Options and warrants				
outstanding - August,31 2010	7,660,176	\$1.42	5.16	2,340,321
Outstanding and exercisable				
- August 31, 2010	6,251,287	\$1.30	5.50	2,340,321

CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF August 31, 2010
(UNAUDITED)

During fiscal year 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. For the three months ended August 31, 2010, the Company recognized approximately \$30,000 in consulting expense related to this agreement.

6 - Related Party Transactions:

A director provided legal services to the Company over the past several years. As of August 31, 2009, the Company owed the director \$43,985 and it is included in the accompanying consolidated financial statements as "indebtedness to related parties" as of August 31, 2010. As of August 31, 2010 no arrangements had been made for the Company to repay the balance of this obligation. The Company anticipates that the director will continue to provide legal services in the future. The amount has been classified as short-term, as the amount is payable on demand.

In May and July 2007, the Company issued \$150,000 in promissory notes with a stated interest rate of 14% to a director of the Company, and a maturity date of six months from the issuance date. As of August 31, 2010, the balance in the notes is \$110,000. The notes have no stated maturity, and are essentially payable upon demand. Accordingly, the Company has Classified the balance as short-term obligation as of August 31, 2010.

In July 2010, two of the Company's executives forgave approximately \$230,000 in accrued salaries that were included as "Accrued salaries - related party" at May 31, 2010. During the three months ended August 31, 2010, the Company reclassified \$230,000 from accrued salaries - related party to additional paid-in capital.

7 - 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 75%, or \$412,000, was paid to Massachusetts General Hospital by November 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. 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. The balance of \$137,500 is due by January 21, 2011.

In February 2010, the Company negotiated a contract with Vista Biologicals Corporation to manufacture a humanized version of the Company's lead product,

Edgar Filing: CYTODYN INC - Form 10-Q

Cytolin(R) at a cost of \$229,500, which will be paid over twelve (12) months beginning in March 2010. \$163,265 was paid subsequent to August 31, 2010.

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 \$382,000 in cash related to this private placement.

In September 2010, the Company issued 25,000 stock options each to a director and a consultant at an exercise price of \$1.20. The options expire in 2020.

On December 6, 2010 the Company issued 500,000 stock options to the newly elected Chief Executive Officer at an exercise price of \$1.19. The options vest 25% upon first year anniversary and 6.25% vest each following quarter.

18

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

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.

We negotiated with a contract manufacturer Vista Biologicals Corporation to manufacture GMP product for the our current clinical trial of Cytolin(R) at a cost of \$565,000, all of which was paid by September 2008. The initial clinical trial to be conducted by Massachusetts General Hospital will cost the Company

Edgar Filing: CYTODYN INC - Form 10-Q

approximately \$550,000 of which \$412,000 was paid by November 30, 2010. The balance of \$137,500 is due in January 2011.

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. \$163,265 was paid by November 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.

19

The Company expects to have its proprietary, fully-humanized version of Cytolin(R) ready for bulk manufacturing in early 2011.

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 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 yet estimate the cost of a follow up study at this time.

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 2011.

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

Edgar Filing: CYTODYN INC - Form 10-Q

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.

20

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

21

Edgar Filing: CYTODYN INC - Form 10-Q

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 for an additional patent during the next fiscal year covering our humanized version of Cytolin(R) if our research and development efforts warrant it.

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 December 14, 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.

22

Results of Operations

Results of Operations for the three months ended August 31, 2010 and 2009 are as follows:

For the three months ended August 31, 2010 and 2009 the Company had no activities that produced revenues from operations.

For the three months ended August 31, 2010, the Company had a net loss of (\$593,750) compared to a net loss of \$(323,229) for the corresponding period in 2009. For the three months ended August 31, 2010 and 2009, the Company incurred

Edgar Filing: CYTODYN INC - Form 10-Q

operating expenses of \$(589,665) and \$(275,539), respectively, consisting primarily of, consulting expense, stock-based compensation, professional fees, and salaries. The most significant change in operating expenses for the respective periods related to the increase in salary expense and stock-based compensation of approximately \$103,000 and \$185,000, respectively. The increase in salaries relates to our hiring of our chief operating officer during fiscal year 2010, as well as certain employees migrating from part-time status to full time status during fiscal year 2010. We granted a significant number of common stock options during the fourth quarter of 2010, which included common stock options with vesting over a three year period. As a result, stock-based compensation will increase during fiscal year 2011 relative to the 2010 comparable quarters. Additionally, we expect salary expense and research and development expenses to increase in the future, as our clinical trials progress. However, increases in salary expense, as well as research and development expenditures will be contingent upon our ability to obtain the necessary financing going forward.

Liquidity and Capital Resources

On August 31, 2010 we had working capital of approximately \$80,000 as compared to approximately \$346,000 on May 31, 2010.

Cash Flows

Cash used in operating activities of approximately \$351,000 during the three months ended August 31, 2010 increased approximately \$64,000 from approximately \$287,000 in 2009. The increase in the cash used in operating activities for the above periods was primarily attributable to the following:

- o Net loss increased approximately \$271,000; amortization decreased approximately \$39,000.

The above increases were partially offset by the following:

- o Stock-based compensation increased approximately \$185,000 from 2009 to 2010.
- o Accounts payable, accrued interest payable, and accrued liabilities decreased approximately \$57,000.

There were no material changes in cash flows from investing activities from 2009 To the comparable period in 2010.

Cash flows provided by financing activities of approximately \$66,000 during the three months ended August 31, 2010 increased approximately \$52,000 from approximately \$118,000 during 2009. The increase in cash provided by financing activities for the above periods was attributable to the increase in proceeds from common stock issuances.

As shown in the accompanying Financial Statements, for the three months ended August 31, 2010 and 2009, and since October 28, 2003 through August 31, 2010 the Company has had net losses of \$(593,750) and \$(323,229) and \$(12,876,323), respectively. As of August 31, 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

Edgar Filing: CYTODYN INC - Form 10-Q

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 stock and proceeds from notes payable. From inception through August 31, 2010 we raised cash of approximately \$5,660,000 (net of offering costs) common stock financings and approximately \$1,537,000. through the issuance notes payable.

Since October 28, 2003 through August 31, 2010, we have incurred \$1,776,000 of research and development costs and approximately \$12,375,000 in operating expenses.

We have incurred significant net losses and negative cash flows from operations since our inception. As of August 31, 2010, we had an accumulated deficit of approximately \$(14,478,000) and working capital of approximately \$80,000.

We anticipate that cash used in product development and operations, especially in the marketing, production and sale of our products will increase significantly in the future.

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 three month period ending August 31, 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 August 31, 2010.

Changes in Control Over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the quarter ended August 31, 2010, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity and Use of Proceeds

During the three months ended August 31, 2010, the Company sold 66,000 shares of

Edgar Filing: CYTODYN INC - Form 10-Q

restricted common stock at \$1.00 per share. 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

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: December 14, 2010

BY: /s/ Kenneth J. Van Ness

Kenneth J. Van Ness
Chief Executive Officer