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CYTODYN INC
Form 10-Q
September 28, 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: November 30, 2009 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)

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PART I

Item 1. Financial Statements

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

| | November 30, 2009 (unaudited) ----- | May 31, 2009 ----- |
|--|--|--------------------------|
| Assets | | |
| Current Assets: | | |
| Cash | \$ 126,403 | \$ 265,520 |
| Prepaid expenses | 14,797 | -- |
| Prepaid license fees | 7,500 | 7,500 |
| | ----- | ----- |
| Total current assets | 148,700 | 273,020 |
| Furniture and equipment, net | 3,082 | 1,963 |
| Intangible assets, net | -- | 161 |
| Other Assets | 27,725 | 29,600 |
| | ----- | ----- |
| | \$ 179,507 | \$ 304,744 |
| | ===== | ===== |
| Liabilities and Shareholders' Deficit | | |
| Current liabilities: | | |
| Accounts payable | \$ 305,847 | \$ 269,870 |
| Accrued liabilities | 52,670 | 49,424 |
| Short-term portion of legal accrual | 25,000 | 25,000 |
| Indebtedness to related parties - short-term portion | 190,985 | -- |
| Short-term portion of notes payable | 27,500 | 67,500 |

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| | | |
|--|-------------|-------------|
| Accrued interest payable | 34,000 | 80,329 |
| | ----- | ----- |
| Total current liabilities | 636,002 | 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 | 872,439 | 1,005,045 |
| | ----- | ----- |
| Shareholders' deficit: | | |
| Series A Convertible preferred stock, no par value; 5,000,000 shares authorized, -0- and 100,000 shares issued and outstanding At November 30, 2009 and May 31, 2009, respectively | -- | 167,500 |
| Series B Convertible stock preferred stock, no par value; 400,000 shares authorized, 125,000 and -0- shares issued and outstanding at November 30, 2009 and May 31, 2009, respectively | 625,000 | -- |
| Treasury stock, at cost, 568,420 shares held | (159,158) | -- |
| Additional paid-in capital - treasury stock | 218,449 | |
| Common stock, no par value; 25,000,000 shares authorized, 19,139,315 issued and 18,570,895 outstanding at November 30, 2009, respectively and 16,221,315 issued and outstanding at May 31, 2009 | 6,717,743 | 6,285,587 |
| Prepaid stock services | (108,433) | -- |
| Additional paid-in capital | 3,178,849 | 2,994,153 |
| Accumulated deficit on unrelated dormant operations | (1,601,912) | (1,601,912) |
| Deficit accumulated during development stage | (9,563,470) | (8,545,629) |
| | ----- | ----- |
| Total shareholders' deficit | (692,932) | (700,301) |
| | ----- | ----- |
| | \$ 179,507 | \$ 304,744 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

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

| | Three months ended, | | Six months ended, | |
|----------------------------|---------------------|------------|-------------------|------------|
| | 11/30/2009 | 11/30/2008 | 11/30/2009 | 11/30/2008 |
| | ----- | ----- | ----- | ----- |
| Operating expenses: | | | | |
| General and administrative | \$ 516,334 | \$ 402,786 | \$ 765,239 | \$ 660,483 |

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| | | | | |
|---|--------------|--------------|----------------|----------------|
| Amortization / depreciation | 461 | 4,252 | 1,046 | 4,641 |
| Research and development | 160,878 | 195,000 | 167,368 | 460,000 |
| Legal fees | 10,848 | 43,840 | 30,407 | 73,194 |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 688,521 | 645,878 | 964,060 | 1,198,318 |
| | ----- | ----- | ----- | ----- |
| Operating loss | (688,521) | (645,878) | (964,060) | (1,198,318) |
| Interest income | -- | -- | -- | -- |
| Extinguishment of debt | -- | -- | -- | -- |
| Interest expense: | | | | |
| Interest on convertible debt | -- | -- | (38,604) | -- |
| Interest on notes payable | (6,091) | (12,100) | (15,177) | (18,420) |
| | ----- | ----- | ----- | ----- |
| Loss before income taxes | (694,612) | (657,978) | (1,017,841) | (1,216,738) |
| Income tax provision | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Net loss | \$ (694,612) | \$ (657,978) | \$ (1,017,841) | \$ (1,216,738) |
| | ===== | ===== | ===== | ===== |
| Basic and diluted loss per share | \$ (.04) | \$ (0.05) | \$ (.05) | \$ (0.09) |
| | ===== | ===== | ===== | ===== |
| Basic and diluted weighted average common shares outstanding | 19,606,592 | 13,958,792 | 19,072,811 | 13,386,691 |
| | ===== | ===== | ===== | ===== |

See accompanying notes to condensed consolidated financial statements

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CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Deficit
Period October 28, 2003 through November 30, 2009
(unaudited)

| | Preferred Stock | | Common Stock | | Treasury |
|--|-----------------|--------|--------------|--------------|----------|
| | 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 | | | | | |

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| | | | | | |
|---|---------------------------|----------------------------------|----------------------------------|------------------------|---|
| (\$.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 | Defici Accumula During Developm Stage |
| 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) | (338, |
| Balance at May 31, 2004 | -- | -- | 23,502 | (1,601,912) | (338, |
| 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 | -- | -- | -- | -- | (777, |
| Balance at May 31, 2005 | -- | -- | 40,942 | (1,601,912) | (1,115, |

See accompanying notes to condensed consolidated financial statements

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CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Deficit
Period October 28, 2003 through November 30, 2009
(unaudited)

| | Preferred Stock | | Common Stock | | Treasury 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 | Deficit Accumulated During Development Stage |
| 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) | -- | -- | -- | -- | -- |

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| | | | | |
|---|----|-----------|---------|----|
| May 2006, common shares issued to extinguish convertible debt | -- | -- | -- | -- |
| 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

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CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Deficit
Period October 28, 2003 through November 30, 2009
(unaudited)

| | Preferred Stock | | Common Stock | | Treasury 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 | -- | -- | -- | -- | -- |

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| | | | | | |
|---|---------------------|----------------------------|----------------------------|---------------------|--|
| Warrants issued with convertible debt | -- | -- | -- | -- | -- |
| Common stock issued for services | -- | -- | 30,000 | 26,400 | -- |
| 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 | Deficit Accumulated During Development Stage |
| March 2006, stock options issued to extinguish debt | -- | -- | 86,341 | -- | -- |
| Net loss at year ended May 31, 2006 | -- | -- | -- | -- | (2,053,000) |
| Balance at May 31, 2006 | -- | (267,060) | 1,324,509 | (1,601,912) | (3,169,000) |
| 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 | -- | -- | -- | -- | (2,610,000) |
| Balance at May 31, 2007 | -- | (106,521) | 2,072,993 | (1,601,912) | (5,779,000) |

See accompanying notes to condensed consolidated financial statements

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| | Preferred Stock | | Common Stock | | Treasury Stock |
|---|---------------------|----------------------------|----------------------------|---------------------|---|
| | Shares | Amount | Shares | Amount | |
| Amortization of prepaid stock for services | -- | -- | -- | -- | -- |
| Stock based compensation | -- | -- | -- | -- | -- |
| 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 | -- |
| | Treasury Stock APIC | Stock for Prepaid Services | Additional Paid-in Capital | Accumulated Deficit | Deficiency Accumulated During Development Stage |
| 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 | -- | -- | -- | -- | (1,193,000) |
| Balance at May 31, 2008 | -- | -- | \$ 2,613,257 | \$ (1,601,912) | \$ (6,972,000) |

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See accompanying notes to condensed consolidated financial statements

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CytoDyn, Inc.
(A Development Stage Company)
Consolidated Statements of Changes in Shareholders' Deficit
Period October 28, 2003 through November 30, 2009
(unaudited)

| | Preferred Stock | | Common Stock | | Treasury Shares |
|---|---------------------------|----------------------------------|----------------------------------|------------------------|--|
| | Shares | Amount | Shares | Amount | |
| Stock issued for cash (\$.50/share) | -- | -- | 3,023,308 | \$ 1,511,654 | -- |
| Stock issued for services (\$.50/share) | -- | -- | 388,200 | 194,100 | -- |
| 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 | -- |
| Conversion of debt to Common stock (\$.45/share) | -- | -- | 325,458 | 146,456 | -- |
| | Treasury Stock APIC | Stock for Prepaid Services | Additional Paid-in Capital | Accumulated Deficit | Deficit Accumula During Developm Stage |
| Stock issued for cash (\$.50/share) | -- | -- | -- | -- | -- |
| Stock issued for services (\$.50/share) | -- | -- | -- | -- | -- |
| Stock issued for services (\$.37/share) | -- | -- | -- | -- | -- |

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| | | | | | |
|---|----|----|--------------|----------------|----------------|
| Stock based compensation | -- | -- | 371,996 | -- | -- |
| Stock issued in payment Of accounts payable, (\$.50/share) | -- | -- | -- | -- | -- |
| Stock issued for services (\$.42/share) | -- | -- | -- | -- | -- |
| Capital contribution | -- | -- | 8,900 | -- | -- |
| Net loss ended May 31, 2009 | -- | -- | -- | -- | (1,572,000) |
| Balance at May 31, 2009 | -- | -- | \$ 2,994,153 | \$ (1,601,912) | \$ (8,545,000) |
| Stock issued for cash (\$.50/share) | -- | -- | -- | -- | -- |
| 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' Deficit
Period October 28, 2003 through November 30, 2009
(unaudited)

| | Preferred Stock | | Common Stock | | Treasury Shares |
|---|-----------------|-----------|--------------|---------|--------------------|
| | 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) | -- | -- | -- | -- | (1,200,000) |
| Stock issued for cash (\$.50/share) | -- | -- | -- | -- | 550,000 |
| Stock issued for services (\$.69/share) | -- | -- | -- | -- | 81,000 |
| Amortization of prepaid Stock for services | -- | -- | -- | -- | -- |
| Series B Convertible Preferred stock issued For cash (\$5.00/share) | 125,000 | 625,000 | -- | -- | -- |

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| Net Loss, ended November 30, 2009 | -- | -- | -- | -- | -- |
|---|---------------------------|----------------------------------|----------------------------------|------------------------|--|
| Balance at November 30, 2009 | 125,000 | \$ 625,000 | 19,139,315 | \$ 6,717,743 | (568,000) |
| | Treasury Stock APIC | Stock for Prepaid Services | Additional Paid-in Capital | Accumulated Deficit | Deficit Accumula During Developm Stage |
| Conversion of preferred Stock to common stock | -- | -- | -- | -- | -- |
| Stock-based compensation | -- | -- | 146,092 | -- | -- |
| Original issue discount Convertible debt with Beneficial conversion Feature | -- | -- | 38,604 | -- | -- |
| Repurchase of common stock (\$.28/share) | -- | -- | -- | -- | -- |
| Stock issued for cash (\$.50/share) | 123,000 | -- | -- | -- | -- |
| Stock issued for services (\$.69/share) | 95,449 | (118,291) | -- | -- | -- |
| Amortization of prepaid Stock for services | -- | 9,858 | -- | -- | -- |
| Series B Convertible Preferred stock issued For cash (\$5.00/share) | -- | -- | -- | -- | -- |
| Net Loss, ended November 30, 2009 | -- | -- | -- | -- | (1,017,000) |
| Balance at November 30, 2009 | \$ 218,449 | \$ (108,433) | \$ 3,178,849 | \$ (1,601,912) | \$ (9,563,000) |

See accompanying notes to condensed consolidated financial statements

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

| 6 months ended | | October 2008 |
|----------------|------------|-----------------|
| 11/30/2009 | 11/30/2008 | 11/30/2008 |
| | | |

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| | | | |
|---|----------------|----------------|---------|
| Cash flows from operating activities | | | |
| Net loss | \$ (1,017,841) | \$ (1,216,738) | (9,563) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | | |
| Amortization / depreciation | 1,046 | 4,641 | 176 |
| Extinguishment of debt | -- | -- | (337) |
| Amortization of original issue discount | 38,604 | -- | 717 |
| Purchased in process research and development | -- | -- | 274 |
| Stock-based compensation | 155,950 | 372,404 | 2,949 |
| Changes in current assets and liabilities: | | | |
| Accrued legal settlement | -- | -- | 25 |
| Prepaid expenses | (14,797) | 24,505 | (22) |
| Other assets | 1,875 | 138 | (27) |
| Accounts payable, accrued interest and accrued liabilities | 13,850 | 32,452 | 691 |
| Net cash used in operating activities | (821,313) | (782,598) | (5,115) |
| Cash flows from investing activities: | | | |
| Furniture and equipment purchases | (2,004) | (1,951) | (14) |
| Net cash used in investing activities | (2,004) | (1,951) | (14) |
| Cash flows from financing activities: | | | |
| Capital contributions by president | -- | -- | 14 |
| Proceeds from notes payable to related parties | -- | -- | 702 |
| Payments on notes payable to related parties | -- | (34,543) | (120) |
| Proceeds from notes payable issued to individuals | -- | -- | 145 |
| Payments on notes payable issued to individuals | -- | (7,000) | (7) |
| Proceeds from convertible notes payable | -- | -- | 686 |
| Proceeds from the sale of common stock | 118,200 | 781,000 | 2,708 |
| Proceeds from Series B Preferred stock | 625,000 | -- | 625 |
| Purchase of treasury stock | (336,000) | -- | (336) |
| Proceeds from issuance of treasury stock | 277,000 | -- | 277 |
| Payments for offering costs | -- | -- | (81) |
| 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 | 684,200 | 739,457 | 5,253 |
| Net change in cash | (139,117) | (45,092) | 123 |
| Cash, beginning of period | 265,520 | 85,435 | 3 |
| Cash, end of period | \$ 126,403 | \$ 40,343 | 126 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the period for: | | | |
| Income taxes | \$ -- | \$ -- | |
| Interest | \$ -- | \$ -- | 3 |

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

| | Six months ended | | October |
|---|------------------|------------|----------------------------|
| | 11/30/2009 | 11/30/2008 | 2003 thru 11/30/2002 |
| 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 |

See accompanying notes to condensed consolidated financial statements

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CYTODYN, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF November 30, 2009
(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

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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.

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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, 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.

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Operating results for the three and six months ended November 30, 2009 and 2008 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 six month periods ended November 30, 2009 and 2008 and the period October 28, 2003 through November 30, 2009, (b) the financial position at November 30, 2009, and (c) cash flows for the six month periods ended November 30, 2009 and 2008 and the period October 28, 2003 through November 30, 2009, 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 September 28, 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,

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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

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 November 30, 2009 or May 31, 2009. The

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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 six months ended November 30, 2009 and 2008, and for the period October 28, 2003 through November 30, 2009.

Research and Development

Research and development costs are expensed as incurred.

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Financial Instruments

At November 30, 2009 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 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

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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 November 30, 2009 and 2008.

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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 six month periods ended November 30, 2009 and 2008, 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 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 six months ended November 30, and 2008, respectively.

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),

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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.

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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 six months ended November 30, 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 and six months ended November 30, 2009, 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 three months ended November 30, 2009 the Company issued 125,000 shares of Series B Convertible Preferred Stock (Series B) at \$5.00 per share for cash proceeds totaling \$625,000. 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. 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.

5 - Equity:

The Company has one stock-based equity plan at November 30, 2009. 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 November 30, 2009 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 November 30, 2009 and 2008:

| 2009 | 2008 |
|-------|-------|
| ----- | ----- |

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

During the six months ended November 30, 2009 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.

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Net cash proceeds from the exercise of stock options and warrants were \$0 for the three and six months ending November 30, 2009 and 2008, respectively. Compensation expense related to stock options and warrants was approximately \$68,000, and \$85,000 for the three months ended November 30, 2009 and 2008, respectively, and \$146,000 and \$205,000 for the six months ended November 30, 2009 and 2008, respectively.

The grant date fair value of options vested during the six month periods ended November 30, 2009 and 2008 was approximately \$140,000 and \$201,000, respectively. The weighted average grant date fair value of options and warrants granted during the six month periods ended November 30, 2009 and 2008 was \$-0- and \$.30, respectively. As of November 30, 2009 there was approximately \$155,000 of unrecognized compensation costs related to share-based payments for unvested options, which is expected to be recognized over a weighted average period of .49 years.

The following table represents stock option and warrant activity as of and for the six months ended November 30, 2009:

| | 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 - November 30 2009 | 5,094,176 | \$1.18 | 4.85 | \$ 179,180 |
| Outstanding exercisable | | | | |
| - November 30, 2009 | 4,930,606 | \$1.19 | 4.76 | \$ 179,180 |

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During the three months ended November 30, 2009, 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 November 30, 2009. During the three months ended November 30, 2009, the Company reissued 550,000 treasury shares at \$.50 per share, and realized cash proceeds of \$277,000.

Additionally, during the three months ended November 30, 2009, the Company reissued 81,500 shares of treasury stock for certain consulting services at \$.69 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 months ended November 30, 2009, the Company recognized approximately \$10,000 in consulting expense related to this consulting agreement.

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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 November 30, 2009, the Company has an accrual of \$25,000 related to this settlement agreement.

7 - 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 \$40,985 and it is included in the accompanying consolidated financial statements as "indebtedness to related parties" as of November 30, 2009. As of November 30, 2009 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 November 30, 2009. 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 November 30, 2009.

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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.

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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.

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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.

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 January 2010, two of the Company's executives forgave approximately \$230,000 in accrued salaries that are included as "Accrued salaries - related party" at May 31, 2009.

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 \$116,000 in cash related to this private placement.

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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

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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.

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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. \$47,500 was paid by May 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.

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

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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.

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| 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 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

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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.

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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 may file additional patents during the current fiscal year if our research and development efforts warrant them, but we do not have any such potential patents identified at this time.

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 September 28, 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

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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.

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Results of Operations

Results of Operations for the three months ended November 30, 2009 and 2008 are as follows:

For the three months ended November 30, 2009 and 2008 we had no activities that produced revenues from operations.

For the three months ended November 30, 2009, we had a net loss of \$(694,612) compared to a net loss of \$(657,978) for the corresponding period in 2008. For the three months ended November 30, 2009 and 2008, we incurred operating expenses of \$(688,521) and \$(645,878) consisting primarily of, consulting expense, stock-based compensation, legal fees, and salaries.

The increase in operating expenses of \$42,643 from the three month period November 30, 2009 compared to the three months ended November 30, 2008 related primarily to decreases in research and development, offset by increases in salaries and consulting included in general and administrative expenses. 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 three months ended November 30, 2008. 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.

Results of Operations for the six months ended November 30, 2009 and 2008 are as follows:

For the six months ended November 30, 2009 and 2008 we had no activities that produced revenues from operations.

For the six months ended November 30, 2009, we had a net loss of \$(1,017,841) compared to a net loss of \$(1,216,738) for the corresponding period in 2008. For the six months ended November 30, 2009 and 2008, we incurred operating expenses of \$(964,060) and \$(1,198,318) consisting primarily of, consulting expense, stock-based compensation, legal fees, research and development and salaries.

The decrease in operating expenses of \$234,258 from the six month period November 30, 2009 compared to the six months ended November 30, 2008 related primarily to a decrease in research and development expenses of approximately \$263,000, offset by increases in general and administrative expenses related to salaries and consulting expenses. 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 six months ended November 30, 2008. 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.

Liquidity and Capital Resources

As shown in the accompanying Financial Statements, for the six months ended November 30, 2009 and 2008, and since October 28, 2003 through November 30, 2009 the Company has had net losses of \$(1,017,841) and \$(1,216,738) and \$(9,563,470), respectively. As of November 30, 2009, 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 November 30, 2009 we raised cash of approximately \$3,333,000 (net of offering costs) in common and preferred stock financings and approximately \$1,534,000 through the issuance notes payable.

Since October 28, 2003 through November 30, 2009, we have incurred \$1,587,000 of research and development costs and approximately \$9,075,000 in operating expenses.

We have incurred significant net losses and negative cash flows from operations since our inception. As of November 30, 2009, we had an accumulated deficit of approximately \$(11,165,000) and a working capital deficit of approximately \$(487,000).

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.

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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4T. Controls and Procedures

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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 six month period ending November 30, 2009 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 November 30, 2009.

Changes in Control Over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the quarter ended November 30, 2009, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity and Use of Proceeds

During the three months ended November 30, 2009, 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 November 30, 2009. During the three months ended November 30, 2009, the Company reissued 550,000 treasury shares at \$.50 per share, and realized cash proceeds of \$277,000. Additionally, during the three months ended November 30, 2009, the Company reissued 81,500 shares of treasury stock for certain consulting services at \$.69 per share. These shares were sold pursuant to an exemption under Regulation D Rule 506 of the Securities Act.

During the three months ended November 30, 2009 the Company issued 125,000 shares of Series B Convertible Preferred Stock (Series B) at \$5.00 per share for cash proceeds totaling \$625,000. The Series B is convertible into ten shares of the Company's common stock, with an effective fixed conversion price of \$.50 per share. These shares were sold pursuant to an exemption under Regulation D Rule 506 of the Securities Act.

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:

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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: September 28, 2010

BY: /s/ Allen D. Allen

Allen D. Allen
President and CEO