

CytoDyn Inc.
Form 10-Q
April 09, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2019

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

For the transition period from _____ to _____

Commission File Number: 000-49908

CYTODYN INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

83-1887078
(I.R.S. Employer or
Identification No.)

1111 Main Street, Suite 660

Vancouver, Washington
(Address of principal executive offices)

98660
(Zip Code)

(Registrant's telephone number, including area code) (360) 980-8524

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On March 31, 2019, there were 305,490,094 shares outstanding of the registrant's \$0.001 par value common stock.

Table of Contents

TABLE OF CONTENTS

	PAGE
<u>PART I</u>	3
<u>ITEM 1. FINANCIAL STATEMENTS</u>	3
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	31
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	38
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	38
<u>PART II</u>	39
<u>ITEM 1. LEGAL PROCEEDINGS</u>	39
<u>ITEM 1A. RISK FACTORS</u>	39
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	39
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	39
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	39
<u>ITEM 5. OTHER INFORMATION</u>	39
<u>ITEM 6. EXHIBITS</u>	40

Table of Contents**PART I****Item 1. Financial Statements.**

CytoDyn Inc.

Consolidated Balance Sheets

(Unaudited)

	February 28, 2019 (unaudited)	May 31, 2018
Assets		
Current assets:		
Cash	\$ 1,593,629	\$ 1,231,445
Prepaid expenses	232,541	227,173
Prepaid service fees	2,641,301	1,862,009
Total current assets	4,467,471	3,320,627
Furniture and equipment, net	8,713	11,228
Intangibles, net	15,951,361	1,567,143
Total assets	\$ 20,427,545	\$ 4,898,998
Liabilities and Stockholders (Deficit) Equity		
Current liabilities:		
Accounts payable	\$ 14,941,523	\$ 15,841,859
Accrued liabilities and compensation	252,825	757,778
Accrued license fees	517,600	133,600
Accrued interest on convertible notes	75,154	
Convertible notes payable, net	2,271,823	
Current portion of long term convertible notes payable	4,200,000	
Total current liabilities	22,258,925	16,733,237
Long-term liabilities:		
Convertible notes payable, net	1,225,416	
Derivative liabilities	3,192,243	1,323,732
Total long-term liabilities	4,417,659	1,323,732
Total liabilities	26,676,584	18,056,969
Commitments and Contingencies		
Stockholders (Deficit) equity		
	92	92

Edgar Filing: CytoDyn Inc. - Form 10-Q

Series B convertible preferred stock, \$0.001 par value; 400,000 shares authorized, 92,100 shares issued and outstanding at February 28, 2019 and May 31, 2018, respectively

Common stock, \$0.001 par value; 600,000,000 and 375,000,000 shares authorized, 304,679,081 and 216,881,790 issued and 304,520,070 and 216,722,779 outstanding at February 28, 2019 and May 31, 2018, respectively

	304,680	216,881
Additional paid-in capital	207,878,504	159,764,611
Accumulated (deficit)	(214,432,156)	(173,139,396)
Less: treasury stock, at par (159,011 shares at \$0.001)	(159)	(159)
Total stockholders (deficit)	(6,249,039)	(13,157,971)
Total liabilities and stockholders (deficit) equity	\$ 20,427,545	\$ 4,898,998

See accompanying notes to consolidated financial statements.

Table of Contents

CytoDyn Inc.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2019	2018	2019	2018
Operating expenses:				
General and administrative	\$ 3,345,179	\$ 1,974,915	\$ 8,005,346	\$ 5,153,336
Research and development	9,022,223	12,076,460	33,294,771	29,301,808
Amortization and depreciation	503,922	89,132	747,693	267,414
Total operating expenses	12,871,324	14,140,507	42,047,810	34,722,558
Operating loss	(12,871,324)	(14,140,507)	(42,047,810)	(34,722,558)
Interest income	19	662	2,021	1,870
Change in fair value of derivative liabilities	1,347,907	(741,066)	881,495	(274,132)
Interest expense:				
Amortization of discount on convertible notes	(559,383)	(493,022)	(676,917)	(1,666,017)
Amortization of debt issuance costs	(155,435)	(153,480)	(175,024)	(435,609)
Loss on extinguishment of convertible note			(1,519,603)	
Inducement interest related to warrant exercise				(826,252)
Inducement interest related to convertible debt		(2,352,045)		(2,352,045)
Interest on convertible note payable	(335,595)	(70,642)	(583,842)	(251,315)
Total interest expense	(1,050,413)	(3,069,189)	(2,955,386)	(5,531,238)
Loss before income taxes	(12,573,811)	(17,950,100)	(44,119,680)	(40,526,058)
Income tax benefit			2,826,919	
Net loss	\$ (12,573,811)	\$ (17,950,100)	\$ (41,292,761)	\$ (40,526,058)
Basic and diluted loss per share	\$ (0.04)	\$ (0.10)	\$ (0.16)	\$ (0.25)
Basic and diluted weighted average common shares outstanding	295,637,023	178,088,905	257,491,288	162,460,451

See accompanying notes to consolidated financial statements.

Table of Contents

CytoDyn Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended February 28,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (41,292,761)	\$ (40,526,058)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization and depreciation	747,693	267,414
Amortization of debt issuance costs	676,917	435,609
Amortization of discount on convertible notes	175,024	1,666,017
Interest expense associated with extension of warrant expirations		826,252
Interest expense associated with conversion of notes		2,352,045
Interest expense associated with accretion of convertible notes payable	283,442	
Change in fair value of derivative liabilities	(881,495)	274,132
Stock-based compensation	2,891,548	1,096,226
Loss on extinguishment of convertible note	1,519,603	
Deferred income tax benefit	(2,826,919)	
Changes in current assets and liabilities:		
(Increase) decrease in prepaid expenses	(1,525,956)	2,674,850
(Decrease) increase in accounts payable and accrued expenses	(720,889)	8,014,522
Net cash used in operating activities	(40,953,793)	(22,918,991)
Cash flows from investing activities:		
Furniture and equipment purchases	(3,182)	
Net cash used in investing activities	(3,182)	
Cash flows from financing activities:		
Proceeds from sale of common stock and warrants	29,836,826	22,903,710
Proceeds from warrant exercises		1,647,500
Proceeds from convertible notes payable, net	15,460,000	4,888,500
Repayment on convertible note		(259,157)
Payment of debt issuance costs	(583,200)	
Payment of offering costs	(3,394,467)	(3,090,203)
Net cash provided by financing activities	41,319,159	26,090,350
Net change in cash	362,184	3,171,359
Cash, beginning of period	1,231,445	1,775,583

Cash, end of period	\$ 1,593,629	\$ 4,946,942
---------------------	--------------	--------------

See accompanying notes to consolidated financial statements.

Table of Contents

CytoDyn Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended February 28,	
	2019	2018
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$	\$ 9,157
Non-cash investing and financing transactions:		
Accrued interest converted into note payable	\$ 225,245	\$
Common stock issued for acquisition of ProstaGene, LLC	\$ 11,558,000	\$
Derivative liability associated with convertible notes payable	\$ 2,750,006	\$
Beneficial conversion feature and fair value of warrant issued with note payable	\$ 3,534,992	\$
Common stock issued in connection with an employment agreement	\$ 8,342	\$
Common stock issued for conversion redemption	\$ 455,000	\$
Financing costs associated with placement agent warrants	\$ 260,635	\$ 70,383
Debt discount associated with convertible notes payable	\$ 3,059,159	\$ 1,574,628
Common stock issued upon conversion of convertible debt	\$	\$ 5,788,500
Common stock issued for accrued interest payable	\$	\$ 242,158
Common stock issued for board compensation	\$	\$ 260,190

See accompanying notes to consolidated financial statements.

Table of Contents

CytoDyn Inc.

Consolidated Statement of Changes in Stockholders (Deficit)/ Equity

(Unaudited)

	Preferred Stock		Common Stock		Treasury Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance May 31, 2018	92,100	\$ 92	216,881,790	\$ 216,881	159,011	\$ (159)
First Quarter Fiscal Year Ended May 31, 2019						
Acquisition of ProstaGene LLC						
Issuance of stock payment shares						
Issuance of stock for note payable redemption						
Proceeds from registered direct offering (\$0.50/share)			1,970,000	1,970		
Offering costs related to registered direct offering						
Proceeds from private equity offering (\$0.50/share)			15,028,600	15,029		
Offering costs related to private equity offering						
Offering costs related to debt offering						
Debt discount and issuance costs related to offering						
Beneficial conversion feature on note payable and relative fair value associated with warrants						
Legal fees in connection with equity offerings						
Stock-based compensation						
Net Loss August 31, 2018						
Balance August 31, 2018	92,100	\$ 92	233,880,390	\$ 233,880	159,011	\$ (159)
Second Quarter Fiscal Year Ended May 31, 2019						
Acquisition of ProstaGene LLC			18,658,000	18,658		
Issuance of stock payment shares			8,342,000	8,342		
Issuance of stock for note payable redemption						
Proceeds from registered direct offering (\$0.50/share)						

Offering costs related to registered direct offering						
Proceeds from private equity offering (\$0.50/share)			29,928,570		29,930	
Offering costs related to private equity offering						
Offering costs related to debt offering						
Debt discount and issuance costs related to offering						
Beneficial conversion feature on note payable and relative fair value associated with warrants						
Legal fees in connection with equity offerings						
Stock-based compensation						
Net Loss November 30, 2018						
Balance November 30, 2018	92,100	\$ 92	290,808,960	\$ 290,810	159,011	\$ (159)

See accompanying notes to consolidated financial statements

Table of Contents

CytoDyn Inc.

Consolidated Statement of Changes in Stockholders (Deficit)/ Equity

(Unaudited)

	Preferred Stock		Common Stock		Treasury Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Third Quarter Fiscal Year Ended May 31, 2019						
Acquisition of ProstaGene LLC						
Issuance of stock payment shares						
Issuance of stock for note payable redemption			1,123,641	1,124		
Proceeds from registered direct offering (\$0.50/share)			10,728,480	10,728		
Offering costs related to registered direct offering						
Proceeds from private equity offering (\$0.50/share)			2,018,000	2,018		
Offering costs related to private equity offering						
Offering costs related to debt offering						
Debt discount and issuance costs related to debt offering						
Beneficial conversion feature on note payable and relative fair value associated with warrants						
Legal fees in connection with equity offerings						
Stock-based compensation						
Net Loss February 28, 2019						
Balance February 28, 2019	92,100	92	304,679,081	304,680	159,011	(159)

See accompanying notes to consolidated financial statements

Table of Contents

CytoDyn Inc.

Consolidated Statement of Changes in Stockholders (Deficit)/ Equity

(Unaudited)

	Additional Paid-In Capital	Accumulated Deficit	Total	Fiscal Year To Date
Balance May 31, 2018	\$ 159,764,611	\$ (173,139,396)	\$ (13,157,971)	\$ (13,157,971)
First Quarter Fiscal Year Ended May 31, 2019				
Acquisition of ProstaGene LLC				
Issuance of stock payment shares				
Issuance of stock for note payable redemption				
Proceeds from registered direct offering (\$0.50/share)	983,030		985,000	985,000
Offering costs related to registered direct offering	(75,151)		(75,151)	(75,151)
Proceeds from private equity offering (\$0.50/share)	7,499,271		7,514,300	7,514,300
Offering costs related to private equity offering	(882,716)		(882,716)	(882,716)
Offering costs related to debt offering				
Debt discount and issuance costs related to offering				
Beneficial conversion feature on note payable and relative fair value associated with warrants				
Legal fees in connection with equity offerings	(50,544)		(50,544)	(50,544)
Stock-based compensation	283,346		283,346	283,346
Net Loss August 31, 2018		(14,413,569)	(14,413,569)	(14,413,569)
Balance August 31, 2018	167,521,847	\$ (187,552,965)	\$ (19,797,305)	(19,797,305)
Second Quarter Fiscal Year Ended May 31, 2019				
Acquisition of ProstaGene LLC	11,539,342		11,558,000	11,558,000
Issuance of stock payment shares			8,342	8,342
Issuance of stock for note payable redemption				
Proceeds from registered direct offering (\$0.50/share)				985,000
Offering costs related to registered direct offering				(75,151)
Proceeds from private equity offering (\$0.50/share)	14,934,355		14,964,284	22,478,584
Offering costs related to private equity offering	(1,693,354)		(1,693,354)	(2,576,070)

Offering costs related to debt offering				
Debt discount and issuance costs related to offering				
Beneficial conversion feature on note payable and relative fair value associated with warrants				
Legal fees in connection with equity offerings	(25,652)		(25,652)	(76,196)
Stock-based compensation	1,227,140		1,227,140	1,510,486
Net Loss November 30, 2018		(14,305,380)	(14,305,381)	(28,718,950)
Balance November 30, 2018	193,503,678	\$ (201,858,345)	\$ (8,063,926)	\$ (8,063,926)

See accompanying notes to consolidated financial statements

Table of Contents

CytoDyn Inc.

Consolidated Statement of Changes in Stockholders (Deficit)/ Equity

(Unaudited)

	Additional Paid-In Capital	Accumulated Deficit	Total	Fiscal Year To Date
Third Quarter Fiscal Year Ended May 31, 2019				
Acquisition of ProstaGene LLC				11,558,000
Issuance of stock payment shares				
Issuance of stock for note payable redemption	453,876		455,000	455,000
Proceeds from registered direct offering (\$0.50/share)	5,353,511		5,364,241	6,349,241
Offering costs related to registered direct offering	(545,970)		(545,970)	(621,121)
Proceeds from private equity offering (\$0.50/share)	1,006,982		1,009,000	23,487,584
Offering costs related to private equity offering	(121,079)		(121,079)	(2,697,149)
Offering costs related to debt offering	260,636		260,636	260,636
Debt discount and issuance costs related to debt offering	3,059,159		3,059,159	3,059,159
Beneficial conversion feature on note payable and relative fair value associated with warrants	3,534,992		3,534,992	3,534,992
Legal fees in connection with equity offerings				(76,196)
Stock-based compensation	1,372,719		1,372,719	2,891,547
Net Loss February 28, 2019		(12,573,811)	(12,573,811)	(41,292,761)
Balance February 28, 2019	\$ 207,878,504	\$ (214,432,156)	\$ (6,249,039)	\$ (6,249,039)

See accompanying notes to consolidated financial statements

Table of Contents

CYTODYN INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF FEBRUARY 28, 2019

(UNAUDITED)

Note 1 Organization

CytoDyn Inc. (the Company, we or us) was originally incorporated under the laws of Colorado on May 2, 2002 under the name RexRay Corporation (its previous name) and, effective August 27, 2015, reincorporated under the laws of Delaware. Effective November 16, 2018, we implemented a holding company reorganization, as a result of which we became the successor issuer and reporting company to the former CytoDyn Inc. (now our wholly owned subsidiary, CytoDyn Operations Inc.). We are a clinical-stage biotechnology company focused on the clinical development and potential commercialization of humanized monoclonal antibodies to treat Human Immunodeficiency Virus (HIV) infection. Our lead product candidate, leronlimab (PRO 140), belongs to a class of HIV therapies known as entry inhibitors that block HIV from entering into and infecting certain cells.

The Company is developing a class of therapeutic monoclonal antibodies to address unmet medical needs in the areas of HIV and graft-versus-host disease (GvHD). In addition, we are expanding the clinical focus of leronlimab (PRO 140) to include the evaluation of certain cancer and immunological indications where CCR antagonism has shown initial promise.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and reflect all adjustments, which consist solely of normal recurring adjustments, needed to fairly present the financial results for these periods. The consolidated financial statements and notes thereto are presented as prescribed 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 fiscal years ended May 31, 2018 and 2017 and notes thereto in the Company's Annual Report on Form 10-K.