Zacks Small-Cap Research

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CytoDyn Inc. (CYDY-OTC)

CYDY: CytoFeline is moving forward and Potential acquisition of CCR5 antibody may boost pipeline--Neutral

Current Recommendation	**Neutral**
Prior Recommendation	N/A
Date of Last Change	01/12/2012
Current Price (07/13/12)	$0.75
Twelve- Month Target Price	**$1.50**

OUTLOOK

CytoDyn is a biotech company focused on the development of novel anti-HIV/FIV antibodies. The Company's lead candidate Cytolin represents a new class of compound for the treatment of HIV/AIDS. Cytolin targets CD11a, a cellular protein that is also expressed on the HIV virion. Its unique mechanism of action makes it an ideal candidate for an early HIV/AIDS treatment option. An ex-vivo study of Cytolin is underway and CytoDyn plans to bring a human version of Cytolin into clinic this year.

Current risk/return profile is balanced at this point. We rate the Company's share a Neutral.

SUMMARY DATA

52-Week High	**$3.15**
52-Week Low	**$0.75**
One-Year Return (%)	**N/A**
Beta	**0.14**
Average Daily Volume (sh)	**61,565**
Shares Outstanding (mil)	**28**
Market Capitalization ($mil)	**$21**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0.01**
Insider Ownership (%)	**32**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2012 Estimate	**N/A**
P/E using 2013 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**N/A**
Type of Stock	**N/A**
Industry	**Med-Biomed/Gene**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2011	0.00 A	0.00 A	0.00 A	0.00 A	0.00 A
2012	0.00 A	0.00 A	0.00 A	0.00 E	0.00 E
2013					0.00 E
2014					0.00 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2011	-$0.03 A	-$0.05 A	-$0.05 A	-$0.05 A	-$0.18 A
2012	-$0.05 A	-$0.07 A	-$0.06 A	-$0.05 E	-$0.23 E
2013					-$0.16 E
2014					-$0.18 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW

CytoDyn is Moving Forward with the Development of CytoFeline

Recently, CytoDyn (CYDY) completed production of a sufficient amount of CytoFeline, which will allow the Company to move forward with the next stage of the candidate's development.

CytoFeline is a monoclonal antibody developed by the Company for the treatment of Feline Immunodeficiency Virus (FIV). When purification of the antibody is completed, the Company will conduct in vivo efficacy tests in cats to determine the practicality of anti-LFA1 antibodies to lower viral loads in FIV infected cats.

CytoDyn has selected Colorado State University and Dr. Susan VandeWoude, DVM, Associate Dean for Research CVMBS, Professor of Comparative Medicine, DMIP, at Colorado State University to lead the continuing research of CytoFeline, and to conduct these additional efficacy tests.

Initial CytoFeline research was performed in the laboratory of Dr. John Elder, Ph.D, Professor in the Department of Immunology and Microbial Science at The Scripps Research Institute. The Company anticipates that Dr. Elder intends to publish a paper discussing the results of his research when the research is completed.

In addition to the domestic and feral cats, the Company intends to study whether CytoFeline may potentially benefit the large cat population, specifically lions, tigers and other big cats found in zoos.

CytoFeline is complementary to the Company's lead candidate Cytolin. The CytoFeline asset enhances the Company's intellectual property and diversifies its pipeline. Both Cytolin and CytoFeline will contribute to the growth of CytoDyn in the coming years.

Possible Acquisition of PRO 140 May Boost Pipeline

On March 6, 2012, CytoDyn entered into a non-binding term sheet with **Progenics Pharmaceuticals, Inc.** to acquire from Progenics its proprietary humanized monoclonal antibody viral-entry inhibitor drug candidate, PRO 140.

PRO 140 is a humanized monoclonal antibody developed by Progenics that is directed at CCR5, a cell surface antigen that helps HIV gain entry to the immune cell for replication. PRO 140 has been shown in vitro to bind to CCR5 without interfering with normal cellular immune function and to block HIV entry into cells to which it is bound. Therefore, PRO 140 may have the potential to treat HIV.

Phase I and IIa clinical studies of PRO 140 have been substantially completed by Progenics.

According to the term sheet, the Parties will negotiate exclusively for a specific limited period toward an agreement whereby the Company would acquire all or substantially all of Progenics' worldwide tangible and intangible assets and contractual obligations relating to PRO 140.

But there is no guarantee that the Company and Progenics will be able to enter into a definitive agreement or complete the acquisition of PRO 140.

The possible acquisition of PRO 140 can diversify CytoDyn's pipeline, which is relatively weak with only two candidates. On the other hand, to complete the acquisition, the Company may need to raise new fund. Equity financing will dilute existing shareholder base.

CytoDyn Report Fiscal Third Quarter Financials

On April 16, CytoDyn reported fiscal third quarter financials ended Feb 29, 2012.

There was no revenue for the three months ended February 29, 2012.

Net loss was approximately $1.4 million or $0.06 per share for the three month ended Feb 29, 2012 compared to a net loss of approximately $1.1 million or $0.05 per share for the corresponding period in 2011. For the three months ended February 29, 2012 and February 28, 2011, operating expenses was approximately $1.4 million and $1.1 million, respectively consisting primarily of stock-based compensation, professional fees, research and development and salaries.

The increase in operating expenses of approximately $347,000 from the three-month period ended February 28, 2011 compared to the three months ended February 29, 2012 related primarily to increases in legal fees, stock-based compensation, consulting expenses, and accounting fees, offset by decreases in research and development. Research and development expenses are associated with the development of the Company's lead product, Cytolin.

As of Feb 29, 2012, CytoDyn had cash of $1.8 million and had a negative working capital of approximately $2.5 million. Current cash balance can last through fiscal fourth quarter of 2012. The Company may need to tap the capital market very soon to raise new funds for operations in our view.

The earnings report is a non-event. Investors should be more focused on the advancement of drug candidates. We will update investors when it's available.

VALUATION AND RECOMMENDATION

We maintain our Neutral rating on CytoDyn shares. Our 12-month price target is $1.50 per share.

CytoDyn is an early stage development biotech company. The Company holds two unique drug discovery platform technologies: Cytolin monoclonal antibody targeting HIV and CytoFeline monoclonal antibody targeting cat FIV.

We are optimistic about the Company's lead drug candidate Cytolin. Uncontrolled clinical studies of mouse Cytolin have shown some promise for the treatment of HIV/AIDS, but we would like to see more data especially advanced clinical trial data of humanized Cytolin to confirm the results of mouse Cytolin studies. In this regard, we are pleased to learn that the Company plans to move humanized Cytolin into clinic this year.

Cytolin and CytoFeline target the large HIV and FIV market respectively.

We think CytoDyn has entered into a transition period from a pure preclinical development stage company into a clinical stage biotech company. With an appropriate growth strategy in place, the Company is well positioned to deliver shareholder value in the next few years in our view.

Current risk/return profile is balanced for CytoDyn in our view based on the Company's fundamentals. We admit that it's always a pain to properly value a development stage biotech company, CytoDyn is no exception. We don't think absolute valuation such as free cash flow method is appropriate for CytoDyn since generating positive cash flow is still many years away. Without revenue and operating income in the foreseeable future, it's also very difficult to come up with a value using a relative valuation metrics.

CytoDyn is still in an early development stage and pipeline is relatively weak. The Company's balance sheet is weak too. CytoDyn needs to tap the capital market soon and will continue to do so on a regular basis in our view. Our price target of $1.50 per share corresponds to a market cap of $42 million based on 28 million shares outstanding.

If the Company establishes a major partnership this year with a big pharma or biotech company for either of its development programs, the Company's share could shoot up beyond our price target. However if it proves to be difficult to get much needed cash, the Company's shares could suffer.

RISKS

Cash Position Is Our Chief Concern

Like most small cap biotech companies, CytoDyn has a relatively weak balance sheet.

As of February 29, 2012, the Company had only $1.8 million in cash. The Company completed a private placement on December 31, 2011 by selling 2 million shares at $1.50 per share. Total proceeds were about $3 million.

Since inception, CytoDyn has financed its activities principally from the sale of public and private equity securities and proceeds from notes payable. The Company intends to finance future development activities and working capital needs largely from the sale of equity securities with some additional funding from other traditional financing sources.

As the Company prepares to bring Cytolin into clinic, R&D costs will increase dramatically.

We believe CytoDyn needs to tap the capital market soon and will continue to do so on a regular basis before the Company achieves revenue from product sales or establish any partnership with major pharma or biotech companies.

We remind investors that equity financing will dilute existing shareholder base.

Early Stage Of Development Poses Higher Risks

CytoDyn has two drug candidates Cytolin and CytoFeline. Both are in the early stage of development (pre-clinical) at this point.

Early stage of development poses greater risks as the drug candidate must navigate through the long clinical trials and regulatory review process in order to get into market.

We would like to see more data especially clinical data for the Company's drug candidates before we are bullish about the Company's stocks. We will update investors on this matter once the data are available.

PROJECTED INCOME STATEMENT

	2011A (May)					2012E (May)					2013E (May)	2014E (May)	2015E (May)	2016E (May)
$ in million except per share data	Q1A	Q2A	Q3A	Q4A	FYA	Q1A	Q2A	Q3A	Q4E	FYE	FYE	FYE	FYE	FYE
R&D	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Grants and Others	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Revenues	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CoGS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Income	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**
Gross Margin	-	-	-	-	-	-	-	-	-	-	-	-	-	-
R&D	$0.03	$0.23	$0.23	$0.00	$0.48	$0.17	$0.17	$0.07	$0.15	$0.56	$1.00	$2.50	$3.00	$3.50
% R&D	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SG&A	$0.51	$0.76	$0.61	$0.65	$2.53	$0.64	$1.01	$1.07	$1.05	$3.78	$4.00	$4.20	$4.50	$5.00
% SG&A	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expenses	$0.00	$0.00	$0.23	$0.45	$0.69	$0.34	$0.31	$0.27	$0.25	$1.18	$0.50	$0.60	$0.60	$0.60
% Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	**($0.5)**	**($1.0)**	**($1.1)**	**($1.1)**	**($3.7)**	**($1.2)**	**($1.5)**	**($1.4)**	**($1.5)**	**($5.5)**	**($5.5)**	**($7.3)**	**($8.1)**	**($9.1)**
Operating Margin	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Net	($0.00)	($0.0)	($0.0)	($0.0)	($0.0)	($0.0)	$0.0	($0.0)	($0.0)	($0.0)	($0.1)	($0.1)	($0.1)	($0.1)
Pre-Tax Income	**($0.5)**	**($1.0)**	**($1.1)**	**($1.1)**	**($3.7)**	**($1.2)**	**($1.5)**	**($1.4)**	**($1.5)**	**($5.5)**	**($5.6)**	**($7.4)**	**($8.2)**	**($9.2)**
Income taxes(benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reported Net Income	**($0.5)**	**($1.0)**	**($1.1)**	**($1.1)**	**($3.7)**	**($1.2)**	**($1.5)**	**($1.4)**	**($1.5)**	**($5.5)**	**($5.6)**	**($7.4)**	**($8.2)**	**($9.2)**
YOY Growth	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Margin	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares Out	*20.0*	*20.5*	*21.5*	*22.3*	*21.1*	*22.3*	*22.3*	*25.5*	*28.1*	*24.5*	*35.0*	*42.0*	*50.0*	*60.0*
Reported EPS	**($0.03)**	**($0.05)**	**($0.05)**	**($0.05)**	**($0.18)**	**($0.05)**	**($0.07)**	**($0.06)**	**($0.05)**	**($0.23)**	**($0.16)**	**($0.18)**	**($0.16)**	**($0.15)**
YOY Growth	-	-	-	-	-					-	-	-	-	-
One time charge	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($0.5)**	**($1.0)**	**($1.1)**	**($1.1)**	**($3.7)**	**($1.2)**	**($1.5)**	**($1.4)**	**($1.5)**	**($5.5)**	**($5.6)**	**($7.4)**	**($8.2)**	**($9.2)**
Non GAAP EPS	**($0.03)**	**($0.05)**	**($0.05)**	**($0.05)**	**($0.18)**	**($0.05)**	**($0.07)**	**($0.06)**	**($0.05)**	**($0.23)**	**($0.16)**	**($0.18)**	**($0.16)**	**($0.15)**

Source: Company filings and Zacks Investment Research

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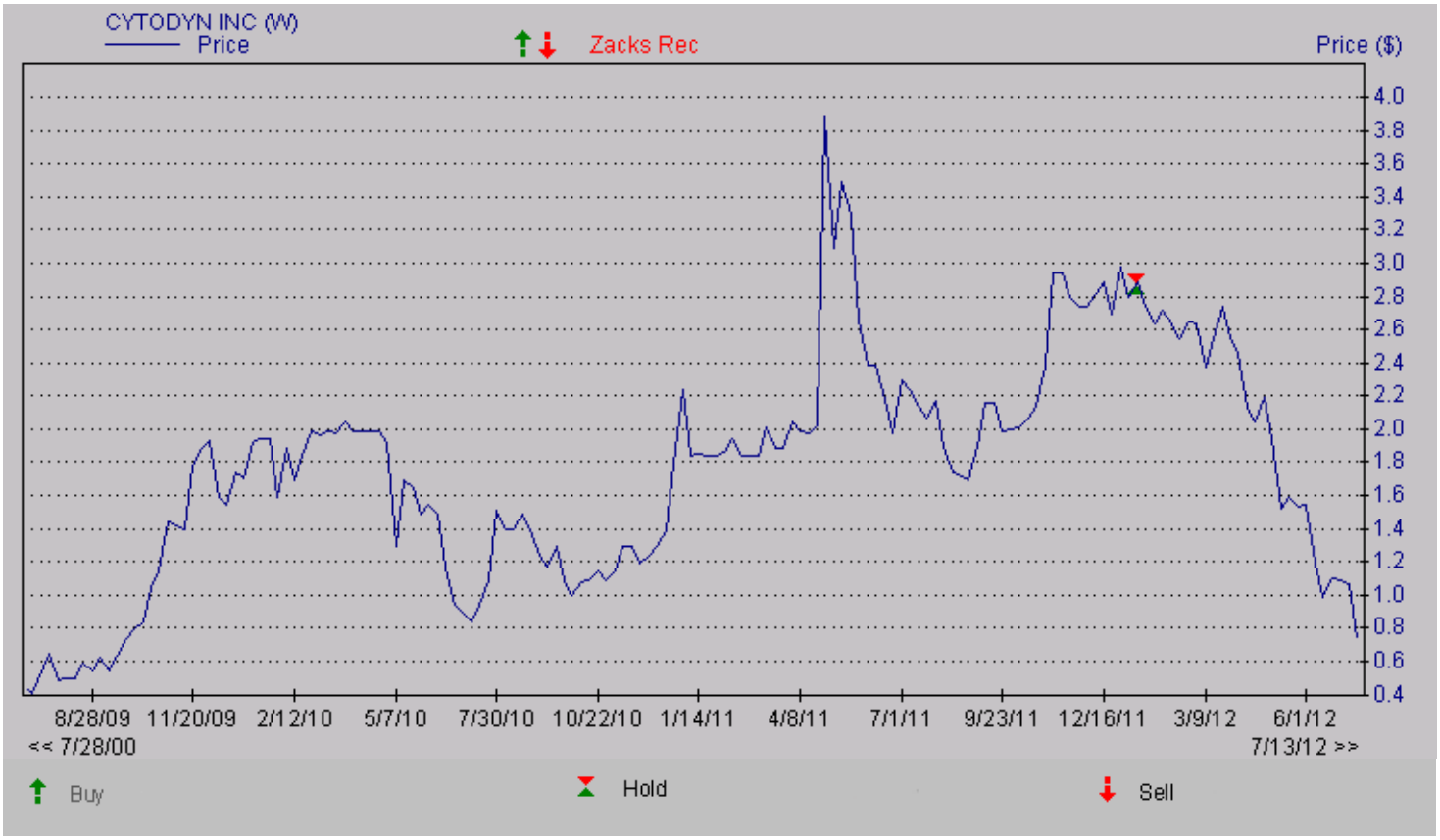

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