CYTODYN INC
Form 424B3
April 13, 2016
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-206896

Prospectus Supplement No. 1

(to Prospectus dated October 5, 2015)

17,861,210 SHARES OF COMMON STOCK

This Prospectus Supplement No. 1 (this Prospectus Supplement) supplements the prospectus of CytoDyn Inc. (the Company , we , us , or our) dated October 5, 2015 (as supplemented to date, including by this Prospectus Supplemen the Prospectus) with the following attached documents which we filed with the Securities and Exchange Commission:

A. Quarterly Report on Form 10-Q for the fiscal quarter ended February 29, 2016 filed with the Securities and Exchange Commission on April 13, 2016.

B. Current Report on Form 8-K filed with the Securities and Exchange Commission on March 21, 2016.

C. Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on February 18, 2016.

D. Current Report on Form 8-K filed with the Securities and Exchange Commission on January 29, 2016.

E. Current Report on Form 8-K filed with the Securities and Exchange Commission on January 22, 2016.

F. Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2015 filed with the Securities and Exchange Commission on January 11, 2016.

G. Current Report on Form 8-K filed with the Securities and Exchange Commission on January 8, 2016.

H. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 24, 2015.

I. Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2015.

J. Current Report on Form 8-K filed with the Securities and Exchange Commission on November 25, 2015.

K. Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2015 filed with the Securities and Exchange Commission on October 9, 2015.

This Prospectus Supplement should be read in conjunction with the Prospectus, which is required to be delivered with this Prospectus Supplement. This Prospectus Supplement updates, amends and supplements the information included in the Prospectus. If there is any inconsistency between the information in the Prospectus and this Prospectus Supplement, you should rely on the information in this Prospectus Supplement.

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This Prospectus Supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, including any amendments or supplements to it.

Investing in our common stock involves risks. Before making any investment in our common stock, you should carefully consider the risk factors for our common stock, which are described in the Prospectus, as amended or supplemented.

In making an investment decision, you should rely only on the information contained in the Prospectus, as supplemented or amended by this Prospectus Supplement and any other prospectus supplement or amendment thereto. We have not authorized anyone to provide you with different or additional information.

You should not assume that the information contained in the Prospectus is complete and accurate as of any date other than the date of the most recent prospectus supplement or amendment thereto, regardless of the time of delivery of the Prospectus or any sale of securities offered thereby.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement is April 13, 2016.

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ANNEX A

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended February 29, 2016

¨ **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)**	**75-3056237** **(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 x No ¨

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

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-accelerated Filer	¨	Smaller Reporting Company	x

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

On March 31, 2016, there were 118,372,275 shares outstanding of the registrant s $0.001 par value common stock.

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PART I

Item 1. Financial Statements.

CytoDyn Inc.

Consolidated Balance Sheets

	February 29, 2016 (unaudited)	May 31, 2015
Assets		
Current assets:		
Cash	$ 10,202,168	$ 1,050,060
Prepaid expenses	223,876	253,833
Prepaid clinical service fees	1,788,840	733,916
Total current assets	12,214,884	2,037,809
Furniture and equipment, net	16,137	24,213
Intangibles, net	2,354,739	2,617,239
Total assets	$ 14,585,760	$ 4,679,261
Liabilities and Shareholders Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 2,388,840	$ 5,016,261
Accrued milestone payments		2,500,000
Accrued liabilities, salaries and interest payable	60,484	644,533
Accrued license fees	930,000	930,000
Convertible notes payable, net		1,634,458
Total current liabilities	3,379,324	10,725,252
Long-term liabilities:		
Related party, convertible notes payable, net		2,637,618
Related party, derivative liability		2,008,907
Total liabilities	3,379,324	15,371,777
Shareholders equity (deficit):		
Series B convertible preferred stock, $.001 par value; 400,000 shares authorized, 95,100 shares issued and outstanding at February 29, 2016 and May 31, 2015, respectively	95	95
Common stock, $.001 par value; 200,000,000 shares authorized, 118,372,275 and 63,644,348 issued and outstanding at February 29, 2016 and May 31, 2015, respectively	118,372	63,644

Additional paid-in capital		101,816,713		60,766,047
Accumulated (deficit)		(90,728,744)		(71,522,302)
Total shareholders equity (deficit)		11,206,436		(10,692,516)
Total liabilities and shareholders equity	$	14,585,760	$	4,679,261

See accompanying notes to consolidated financial statements.

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CytoDyn Inc.

Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Operating expenses:				
General and administrative	$ 1,972,015	$ 750,648	$ 3,709,372	$ 2,075,521
Amortization and depreciation	90,191	90,157	270,573	270,197
Research and development	2,741,051	2,264,064	9,711,360	6,414,531
Legal fees	245,780	187,582	908,991	478,466
Total operating expenses	5,049,037	3,292,451	14,600,296	9,238,715
Operating loss	(5,049,037)	(3,292,451)	(14,600,296)	(9,238,715)
Interest income	2,202	338	2,771	2,026
(Loss) on extinguishment of convertible notes			(584,177)	
Change in fair value of derivative liability		1,261,545	646,505	455,970
Interest expense:				
Amortization of discount on convertible notes		(254,485)	(1,791,967)	(1,298,825)
Amortization of debt issuance costs			(604,625)	
Amortization of discount on related party convertible notes		(143,012)	(94,344)	(203,711)
Inducement interest		(202,295)	(2,061,600)	(555,628)
Interest on notes payable		(91,293)	(118,709)	(246,204)
Total interest expense		(691,085)	(4,671,245)	(2,304,368)
(Loss) before income taxes	(5,046,835)	(2,721,653)	(19,206,442)	(11,085,087)
Provision for taxes on income				
Net (loss)	$ (5,046,835)	$ (2,721,653)	$ (19,206,442)	$ (11,085,087)
Basic and diluted (loss) per share	$ (0.05)	$ (0.05)	$ (0.22)	$ (0.19)
Basic and diluted weighted average common shares outstanding	104,844,162	58,961,254	86,916,655	56,985,042

See accompanying notes to consolidated financial statements.

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CytoDyn Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended	
	February 29, 2016	February 28, 2015
Cash flows from operating activities:		
Net loss	$ (19,206,442)	$ (11,085,087)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Amortization and depreciation	270,573	270,197
Amortization of debt issuance costs	604,625	
Amortization of discount on convertible notes	2,121,491	1,298,825
Amortization of discount on related party notes	94,344	203,711
Change in fair value of derivative liability	(646,505)	(455,970)
Loss on extinguishment of convertible notes	584,177	
Interest expense associated with conversion inducement	757,611	555,628
Interest expense associated with extension of warrant expiration	866,713	
Stock-based compensation	1,546,383	450,782
Changes in current assets and liabilities:		
(Increase) decrease in prepaid expenses	(1,024,967)	257,575
(Decrease) increase in accounts payable, accrued salaries and severance, accrued interest, accrued license fees and accrued liabilities	(5,540,840)	738,224
Net cash (used in) operating activities	(19,572,837)	(7,766,115)
Cash flows from investing activities:		
Furniture and equipment purchases		(16,053)
Net cash (used in) investing activities		(16,053)
Cash flows from financing activities:		
Proceeds from sale of common stock and warrants	33,268,466	
Proceeds from issuance of convertible note payable		3,500,000
Proceeds from exercise of warrants, net of offering costs	94,283	1,066,436
Payment of principal and interest on convertible notes payable	(789,140)	
Payment of offering costs	(3,848,664)	
Net cash provided by financing activities	28,724,945	4,566,436
Net change in cash	9,152,108	(3,215,732)
Cash, beginning of period	1,050,060	4,886,122
Cash, end of period	$ 10,202,168	$ 1,670,390

See accompanying notes to consolidated financial statements.

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CytoDyn Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended	
	February 29, 2016	February 28, 2015
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$	$ 2,198
Interest	$ 26,890	$ 170,934
Non-cash investing and financing transactions:		
Common stock issued upon conversion of convertible debt	$ 7,947,842	$ 1,175,000
Common stock issued or to be issued for accrued interest payable	$ 143,479	$ 729
Original issue discount related to valuation of compound embedded derivative of convertible note payable issued with anti-dilution feature	$	$ 1,170,264
Original issue discount related to valuation of relative fair value of warrants issued with convertible note payable	$	$ 215,732
Preferred and common stock subject to recission liability	$	$ 25,000

See accompanying notes to consolidated financial statements

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CYTODYN INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF FEBRUARY 29, 2016

(UNAUDITED)

Note 1 Organization

CytoDyn Inc. (the Company) 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. 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, PRO 140, belongs to a class of HIV therapies known as entry inhibitors. These therapies 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.

Advanced Genetic Technologies, Inc. (AGTI) was incorporated under the laws of Florida on December 18, 2006 pursuant to an acquisition during 2006 and is currently a dormant subsidiary.

On May 16, 2011, the Company formed a wholly owned subsidiary, CytoDyn Veterinary Medicine LLC (CVM), to explore the possible application of the Company s existing monoclonal antibody technology to the treatment of Feline Immunodeficiency Virus. The Company views the formation of CVM as an effort to strategically diversify the use of its monoclonal antibody technology. This entity is currently a dormant subsidiary.

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 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, 2015 and 2014 and notes thereto in the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 2015, filed with the Securities and Exchange Commission on July 10, 2015. Operating results for the three and nine months ended February 29, 2016 are not necessarily indicative of the results that may be expected for the entire year. In the opinion of management, all adjustments have been made, which consist only of normal recurring adjustments necessary for a fair statement of (a) the results of operations for the three and nine-month periods ended February 29, 2016 and February 28, 2015, (b) the financial position at February 29, 2016, and (c) cash flows for the nine-month periods ended February 29, 2016 and February 28, 2015.

Principles of Consolidation

The consolidated financial statements include the accounts of CytoDyn Inc. and its wholly owned subsidiaries, AGTI and CVM, both of which are dormant entities. All intercompany transactions and balances are eliminated in consolidation.

Reclassifications

Certain prior year amounts shown in the accompanying consolidated financial statements have been reclassified to conform to the 2015 presentation. These reclassifications did not have any effect on total current assets, total assets, total current liabilities, total liabilities, total shareholders (deficit), net loss or earnings per share. The Company reincorporated in Delaware on August 27, 2015, which required a reclassification to reflect par value of common and preferred stock at $0.001 as of February 29, 2016 and May 31, 2015.

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Going Concern

The consolidated 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 had losses for all periods presented. The Company incurred a net loss of $19,206,442 for the nine months ended February 29, 2016 and has an accumulated deficit of $90,728,744 as of February 29, 2016. These factors, among others, raise substantial doubt about the Company s ability to continue as a going concern.

The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company s continuation as a going concern is dependent upon its ability to obtain additional operating capital, complete development of its product candidates, obtain U.S. Food & Drug Administration (FDA) approval, outsource manufacturing of the product candidates, and ultimately achieve initial revenues and attain profitability. The Company is currently engaging in significant research and development activities related to these product candidates, and expects to incur significant research and development expenses in the future. These research and development activities are subject to significant risks and uncertainties. The Company intends to finance future development activities and working capital needs largely from the sale of equity and debt securities, combined with additional funding from other traditional sources. There can be no assurance, however, that the Company will be successful in these endeavors.

Use of Estimates

The preparation of the consolidated financial statements, in accordance with U.S. GAAP, 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 expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash is maintained at federally insured financial institutions and, at times, balances may exceed federally insured limits. The Company has never experienced any losses related to these balances. Balances in excess of federally insured limits at February 29, 2016 and May 31, 2015 approximated $10,094,000 and $1,164,000, respectively.

Identified Intangible Assets

The Company follows the provisions of FASB ASC Topic 350 Intangibles-Goodwill and Other, which establishes accounting standards for the impairment of long-lived assets such as intangible assets subject to amortization. The Company reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of a long-lived asset group is less than its carrying value, the asset is considered impaired. Impairment losses are measured as the amount by which the carrying amount of the asset group exceeds the fair value of the asset. There were no impairment charges for the three and nine months ended February 29, 2016 and February 28, 2015. The value of the Company s patents would be significantly impaired by any adverse developments as they relate to the clinical trials pursuant to the patents acquired as discussed in Notes 6 and 10.

Research and Development

Research and development costs are expensed as incurred. Clinical trials costs incurred through third parties are expensed as the contracted work is performed. Where contingent milestone payments are due to third parties under research and development collaboration arrangements or other contractual agreements, the milestone payment obligations are expensed when the milestone conditions are probable and the amount of payment is reasonably estimable.

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Pre-launch Inventory

The Company may scale-up and make commercial quantities of its product candidate prior to the date it anticipates that such product will receive final FDA approval. The scale-up and commercial production of pre-launch inventories involves the risk that such products may not be approved for marketing by the FDA on a timely basis, or ever. This risk notwithstanding, the Company may scale-up and build pre-launch inventories of product that have not yet received final governmental approval when the Company believes that such action is appropriate in relation to the commercial value of the product launch opportunity. The determination to capitalize is made once the Company (or its third party development partners) has filed a Biologics License Application that has been acknowledged by the FDA as containing sufficient information to allow the FDA to conduct its review in an efficient and timely manner and management is reasonably certain that all regulatory and legal hurdles will be cleared. This determination is based on the particular facts and circumstances relating to the expected FDA approval of the drug product being considered. As of February 29, 2016 and May 31, 2015, the Company did not have pre-launch inventory that qualified for capitalization pursuant to U.S. GAAP ASC 330 Inventory.

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).

The Company accounts for common stock options and common stock warrants based on the fair market value of the instrument using the Black-Scholes option pricing model utilizing certain weighted average assumptions such as expected stock price volatility, term of the options and warrants, risk-free interest rates, and expected dividend yield at the grant date. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of the stock options. The expected volatility is based on the historical volatility of the Company s common stock at consistent intervals. The Company has not paid any dividends on its common stock since its inception and does not anticipate paying dividends on its common stock in the foreseeable future. The computation of the expected option term is based on the simplified method, as the Company s stock options are plain vanilla options. For common stock options and warrants with periodic vesting, the Company recognizes the related compensation costs associated with these options and warrants on a 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% for all periods presented.

Preferred Stock

As of February 29, 2016, the Company s Board of Directors is authorized to issue up to 5,000,000 shares of preferred stock without shareholder approval. As of February 29, 2016, the Company has authorized the issuance of 400,000 shares of Series B convertible preferred stock, of which 95,100 shares are outstanding. The remaining preferred shares authorized have no specified rights.

Debt Issuance Costs

The Company has early adopted ASU 2015-03, as described in Note 8, which requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability and to be amortized over the life on the debt. During the year ended May 31, 2015, the Company incurred direct costs associated with the issuance of short-term convertible notes as described in Note 3, and recorded approximately $605,000 of debt issuance costs and approximately $-0- and $605,000 of related amortization for the three and nine months ended February 29, 2016, respectively.

Offering Costs

During the nine months ended February 29, 2016, the Company incurred approximately $3.85 million in direct incremental costs associated with the sale of equity securities. The offering costs were recorded as a component of equity upon receipt of the proceeds.

Stock for Services

The Company periodically issues common stock, warrants and common stock options to consultants for various services. Costs of these transactions are measured at the fair value of the consideration received or the fair value of the equity instruments issued,

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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.

Loss Per Common Share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net 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 anti-dilutive. Because of the net losses for all periods presented, the basic and diluted weighted average shares outstanding are the same since including the additional shares would have an anti-dilutive effect on the loss per share calculation. Common stock options and warrants to purchase 62,736,584 and 23,055,950 shares of common stock were not included in the computation of basic and diluted weighted average common shares outstanding for the nine months ended February 29, 2016 and February 28, 2015, respectively, as inclusion would be anti-dilutive for these periods. Additionally, as of February 29, 2016, 95,100 shares of Series B convertible preferred stock can potentially convert into 951,000 shares of common stock.

Fair Value of Financial Instruments

At February 29, 2016 and May 31, 2015, the carrying value of the Company s cash, accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of the instruments. The Company carries derivative financial instruments at fair value as required by U.S. GAAP.

Derivative financial instruments consist of financial instruments that contain a notional amount and one or more underlying variables (e.g., interest rate, security price, variable conversion rate or other variables), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. The Company follows the provisions of FASB ASC 815 Derivatives and Hedging (ASC 815), as their instruments are recorded as a derivative liability, at fair value, with changes in fair value reflected in income.

Fair Value Hierarchy

The three levels of inputs that may be used to measure fair value are as follows:

Level 1. Quoted prices in active markets for identical assets or liabilities.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities. Level 2 inputs also include non-binding market consensus prices that can be corroborated with observable market data, as well as quoted prices that were adjusted for security-specific restrictions.

Level 3. Unobservable inputs to the valuation methodology are significant to the measurement of the fair value of assets or liabilities. These Level 3 inputs also include non-binding market consensus prices or non-binding broker quotes that the Company was unable to corroborate with observable market data.

Liability measured at fair value on a recurring basis by level within the fair value hierarchy as of February 29, 2016 and May 31, 2015 is as follows:

	Fair Value Measurement at February 29, 2016 (1)		Fair Value Measurement at May 31, 2015 (1)	
	Using Level 3	Total	Using Level 3	Total
Liability:				
Derivative liability	$	$	$ 2,008,907	$ 2,008,907
Total liability	$	$	$ 2,008,907	$ 2,008,907

(1) The Company did not have any assets or liabilities measured at fair value using Level 1 or 2 of the fair value hierarchy as of February 29, 2016 and May 31, 2015

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A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. These instruments are not quoted on an active market, so the Company uses a Binomial Lattice Model to estimate the value of the derivative liability. A Binomial Lattice Model was used because management believes it reflects all the assumptions that market participants would likely consider in negotiating the transfer of the convertible notes including the potential for early conversion or adjustment of the conversion price due to a future dilutive issuance. The Company s derivative liability is classified within Level 3 of the fair value hierarchy because certain unobservable inputs were used in the valuation model.

The following is a reconciliation of the beginning and ending balances for the liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine months ended February 29, 2016 and the year ended May 31, 2015:

Balance at May 31, 2014	$
Note issuance, September 26, 2014	767,038
Note issuance, February 6, 2015	403,226
Fair value adjustments	838,643
Balance at May 31, 2015	$ 2,008,907
Note conversion June 24, 2015	(521,133)
Note conversion June 24, 2015	(841,269)
Fair value adjustments	(646,505)
Balance at February 29, 2016	$

Income Taxes

Deferred taxes are provided on the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Future tax benefits for net operating loss carry forwards are recognized to the extent that realization of these benefits is considered more likely than not. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company follows the provisions of FASB ASC 740-10 Uncertainty in Income Taxes (ASC 740-10). A reconciliation of the beginning and ending amount of unrecognized tax benefits has not been provided since there are no unrecognized benefits for all periods presented. The Company has not recognized interest expense or penalties as a result of the implementation of ASC 740-10. If there were an unrecognized tax benefit, the Company would recognize interest accrued related to unrecognized tax benefit in interest expense and penalties in operating expenses.

Note 3 Convertible Instruments

Series B Convertible Preferred Stock

During fiscal 2010, the Company issued 400,000 shares of Series B, $0.001 par value Convertible Preferred Stock (Series B) at $5.00 per share for cash proceeds totaling $2,009,000, of which 95,100 shares remain outstanding at February 29, 2016. Each share of the Series B is convertible into ten shares of the Company s common stock, $0.001 par value, including any accrued dividends, 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 was contingent upon the Company increasing its authorized common shares, which occurred in April 2010, when the Company s shareholders approved an increase in the authorized shares of common stock to 100,000,000. At the commitment date, which occurred upon such shareholder approval, the conversion option related to the Series B was beneficial. The intrinsic value of the conversion option at the commitment date resulted in a constructive dividend to the Series B holders of approximately $6,000,000. The constructive dividend increased and decreased additional paid-in capital by identical amounts. The Series B has liquidation preferences over the common shares 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 the rate of $.25 per share per annum. Such dividends are cumulative and accrue whether or not declared and whether or not there are any profits, surplus or other funds or assets of the Company legally available. The Series B holders have no voting rights.

2013 Convertible Notes

During the year ended May 31, 2013, the Company issued $6,588,250 in aggregate original principal amount of unsecured convertible notes (the 2013 Convertible Notes) to investors for cash. Each outstanding 2013 Convertible Note was convertible at the election of the holder at any time into common shares at a fixed conversion price. At issuance, total principal of $6,208,250 was convertible at $0.75 per share, and $380,000 was convertible at $0.65 per share. The 2013 Convertible Notes were payable in full between

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November 30, 2013 and March 6, 2016, and bore interest at rates ranging from 5% to 10% per year, payable in cash semi-annually in arrears beginning on April 1, 2013. At February 29, 2016, there were no outstanding 2013 Convertible Notes. One 2013 Convertible Note with an aggregate original principal amount of $50,000 remained outstanding at May 31, 2015, convertible at $0.75 per share, bearing interest at a rate of 5% per year, and was payable in full on October 15, 2015. This note converted into common stock during the nine months ended February 29, 2016 as noted below.

In connection with the initial sale of the 2013 Convertible Notes, detachable common stock warrants with a two-year term to purchase a total of 8,527,984 common shares at exercise prices ranging from $0.75 to $2.00 per share were issued to the investors. The Company determined the fair value of the warrants at issuance using the Black-Scholes option pricing model utilizing certain weighted average assumptions such as expected stock price volatility, term of the warrants, risk-free interest rates, and expected dividend yield at the grant date.

Additionally, at the commitment date, the Company determined that the conversion feature related to the 2013 Convertible Notes was beneficial to the investors. As a result, the Company determined the intrinsic value of the conversion feature utilizing the fair value of the underlying common stock at the commitment date and the effective conversion price after discounting the 2013 Convertible Notes for the fair value of the warrants. The fair value of the warrants and the intrinsic value of the beneficial conversion feature were recorded as a debt discount to the 2013 Convertible Notes, with a corresponding increase to additional paid-in capital. The debt discount is amortized over the life of the 2013 Convertible Notes. During the nine months ended February 29, 2016 and February 28, 2015, the Company recognized approximately $7,000 and $1,299,000, respectively, as interest expense related to amortization of the debt discount. The unamortized discount was fully amortized upon any conversion of the 2013 Convertible Notes before maturity.

During the nine months ended February 29, 2016, the remaining 2013 Convertible Note in the aggregate principal amount of $50,000, plus accrued but unpaid interest of $1,322, converted into 68,428 shares of common stock. Activity related to the 2013 Convertible Notes for the nine months ended February 29, 2016 and fiscal year ended May 31, 2015 was as follows:

	February 29, 2016	May 31, 2015
Face amount of Notes	$ 50,000	$ 4,271,250
Unamortized discount		(6,529)
Conversions	(50,000)	(4,221,250)
Total carrying value of Notes	$	$ 43,471

During the year ended May 31, 2015, certain holders of the 2013 Convertible Notes in the aggregate principal amount of $1,175,000, plus accrued but unpaid interest of $4,703, were induced to convert their 2013 Convertible Notes into common stock, at the rate of $0.75 per share, conditioned upon their immediate exercise of certain of the foregoing warrants, covering an aggregate of 1,413,333 shares of common stock, at an exercise price reduced from $2.00 down to $0.55 per share. The note conversions resulted in the issuance of 1,556,667 shares of common stock, a cash interest payment of $3,793 and the Company s receipt of $777,333 from the exercise of such warrants.

In addition, during the year ended May 31, 2015, certain holders of the 2013 Convertible Notes in the aggregate principal amount of $3,046,250, plus accrued but unpaid interest of $86,296, were induced to convert their 2013 Convertible Notes into 4,181,079 shares of common stock at a conversion price of $0.75, conditioned upon the Company issuing new warrants to replace certain of the foregoing warrants which had previously expired, covering an aggregate of 6,310,677 shares of common stock, at an exercise price of $1.00 per share, with an approximate term of seven months from date of issuance.

The Company determined the fair value of the new warrants using the Black-Scholes option pricing model utilizing certain weighted-average assumptions, such as expected stock price volatility, term of the warrants, risk-free interest rate and expected dividend yield at the commitment date.

	2015
Expected dividend yield	0%
Stock price volatility	88.79%
Expected term	5 years
Risk-free interest rate	1.46%-1.58%
Grant-date fair value	$0.52-$0.76

During the nine months ended February 29, 2016, the board approved a one-year extension of expiration dates on the aforementioned detachable common stock warrants with an original term of two years, covering approximately 6.3 million shares of common stock,

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with an exercise price of $1.00 per share. Current expiration dates ranging from October 2015 through January 2016 were extended to October 2016 through January 2017. The extensions were effective October 1, 2015 upon the receipt of certain executed documentation from the warrant holders. Pursuant to U.S. GAAP, the Company recognized non-cash interest expense of approximately $866,700 in connection with this extension, which represented the incremental increase in the fair value of the modified warrants.

The Company determined the fair value of the new warrants using the Black-Scholes option pricing model utilizing certain weighted-average assumptions, such as expected stock price volatility, term of the warrants, risk-free interest rate and expected dividend yield at the commitment date.

	2015
Expected dividend yield	0%
Stock price volatility	64.56% -69.30%
Expected term	1 year
Risk-free interest rate	0.33%
Grant-date fair value	$0.15-$0.18

AVCP Convertible Notes

During the year ended May 31, 2015, the Company issued an additional two-year term unsecured convertible promissory note (the AVCP Two-Year Note) in the aggregate principal amount of $2,000,000 to Alpha Venture Capital Partners, L.P. (AVCP), an affiliate of one of the Company s directors as described under Note 9 below. As described in greater detail below, along with the AVCP Bridge Note, the AVCP Two-Year Note has subsequently been converted in a transaction occurring during the nine months ended February 29, 2016. The AVCP Two-Year Note bore simple interest at the annual rate of 5%, payable quarterly. The principal balance of the AVCP Two-Year Note was due and payable in full on September 26, 2016, subject to acceleration of payment in the event of default. Prepayment was permitted without penalty. The AVCP Two-Year Note included events of default for nonpayment of principal or interest when due or other breaches of the AVCP Two-Year Note, as well as for breach of any term of the AVCP Two-Year Note and related warrant agreement. The principal amount of the AVCP Two-Year Note plus unpaid accrued interest was convertible at the election of the holder into shares of the Company s common stock at any time prior to maturity at an initial conversion price of $1.00 per share. The conversion price was subject to adjustment on the same terms, and contained similar consent rights to the issuance of additional indebtedness, as the AVCP Bridge Note above.

During the year ended May 31, 2015, the Company issued a three-month unsecured convertible promissory note (the AVCP Bridge Note and together with the AVCP Two-Year Note, the AVCP Convertible Notes) in the aggregate principal amount of $1,500,000 to AVCP. As described in greater detail below, the AVCP Bridge Note, along with the AVCP Two-Year Note, were subsequently converted in a transaction occurring during the nine months ended February 29, 2016. The principal amount of the AVCP Bridge Note plus unpaid accrued interest was convertible at the election of the holder into shares of the Company s common stock at any time prior to maturity at an initial conversion price of $1.00 per share. The AVCP Bridge Note bore simple interest of 1.2% per month, payable at maturity on May 5, 2015, and monthly thereafter, upon the Company s election to exercise a one-time option to extend the maturity by an additional three months, which the Company exercised on April 1, 2015 (extending the maturity date to August 5, 2015). Prepayment was permitted without penalty subject to the Company s obligation to pay at least three months interest on the principal amount. The conversion price was subject to (i) adjustment for stock splits and similar corporate events and (ii) reduction to a price per share that is 10% below the lowest sale price that is below $.9444 per share, for shares of common stock sold or deemed sold in future securities offerings, including sales to

AVCP and its designees subject to certain exempt transactions. Without AVCP s prior written consent, the Company was not permitted to incur additional indebtedness for borrowed money, other than up to an additional $6.0 million in convertible promissory notes that may be issued to AVCP or related parties, unless such indebtedness was subordinated in right of payment to the Company s obligations under the AVCP Bridge Note and any additional notes issued to AVCP or related parties.

As a result of the private placement of approximately $4 million in convertible notes during the fourth quarter of fiscal year ended May 31, 2015, as described below, the conversion price of the AVCP Convertible Notes was reduced to $0.675 per share of common stock, which was 90% of the weighted-average price of the deemed issued shares of $0.75 related to the approximately $4 million offering of 2015 Convertible Notes described below. The decrease in the conversion price caused the number of shares of common stock issuable upon conversion of the AVCP Convertible Notes to increase from 3,500,000 to 5,185,185 shares of common stock.

The Company accounted for the AVCP Convertible Notes and related warrants (as described below) as a financing transaction, wherein the proceeds received were allocated to the financial instruments issued. Prior to making the accounting allocation, the AVCP Convertible Notes and warrants were evaluated for proper classification under FASB ASC 480 Distinguishing Liabilities from Equity and ASC 815.

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ASC 815 generally requires embedded terms and features that have characteristics of derivatives to be evaluated for bifurcation and separate accounting in instances where their economic risks and characteristics are not clearly and closely related to the risks of the host contract. The embedded derivative features consisted of the conversion price being subject to (i) adjustment for stock splits and similar corporate events and (ii) reduction to a conversion price per share that is 10% below the lowest sale price that is below $.9444 per share for common stock sold or deemed sold in future securities offerings, subject to certain exempt transactions. The note conversion round down (or anti-dilution) provision terms were not consistent with the definition for financial instruments indexed to the Company s stock. As such, the conversion option and conversion reset price protection in the AVCP Convertible Notes required bifurcation as a derivative liability.

In connection with the original issuance of the two AVCP Convertible Notes, the Company issued warrants to AVCP covering 250,000 and 75,000 shares of the Company s common stock exercisable at a price of $0.50 per share on September 26, 2014 and February 6, 2015, respectively. The warrants are currently exercisable in full, include a cashless exercise feature, and will expire on December 31, 2019 and February 29, 2020, respectively. The aforementioned warrants have a term of five years from inception and an exercise price of $.50 per share and meet the conditions for equity classification per ASC 815. The fair value of the warrants was determined using a Black-Scholes option model using the following assumptions:

	Warrants issued on	
	September 26, 2014	February 6, 2015
Risk free interest rate	1.82%	1.48%
Expected life	5 years	5 years
Expected volatility	136%	119%
Dividend yield	0.00%	0.00%

Based on the previous conclusions, the Company allocated the cash proceeds first to the derivative liability at its fair value and then to the warrants at their relative fair value, with the residual allocated to the host AVCP Convertible Notes as presented below.

On June 23, 2015, the Company, Alpha Venture Capital Management, LLC and AVCP entered into a Debt Conversion and Termination Agreement pursuant to which (i) AVCP agreed to convert the $3,535,627 in aggregate indebtedness as of June 23, 2015 under the AVCP Convertible Notes in exchange for 5,237,966 shares of the Company s common stock; (ii) subject to the conversion of the two AVCP Convertible Notes, the Company agreed to issue AVCP an additional five-year warrant covering 1,000,000 shares of common stock at an exercise price of $0.675 per share and (iii) subject to the AVCP s receipt of the common shares and warrant, the parties agreed to (a) terminate the subscription agreements; and (b) release and discharge each other party from all claims and obligations arising under the two AVCP Convertible Notes and subscription agreements. As a result of the debt conversion, the Company recognized a loss on extinguishment of the AVCP Convertible Notes of $584,177, a non-cash gain on the change in the fair value of the derivative liability of $646,505 and non-cash inducement interest expense of $757,611 arising from the aforementioned warrant.

		Nine Months Ended February 29, 2016			
	May 31, 2015	Debt Discount	Fair Value	Conversion	February 29, 2016
AVCP Convertible note payable	$ 2,637,618	$ 94,344	$	$ (2,731,962)	$
Compound embedded derivative	2,008,907		(646,505)	(1,362,402)	

Warrants (equity allocation)	215,732				
Accrued interest on note payable				(35,627)	
Fair Value of Common Stock Issued				4,714,168	
Loss on conversion				(584,177)	
	$ 4,862,257	$ 94,344	$ (646,505)	$	$

Short-Term Convertible Notes

During the year ended May 31, 2015, the Company issued approximately $4.0 million of six-month unsecured convertible promissory notes (the Short-Term Convertible Notes) and related warrants to investors for cash. Each Short-Term Convertible Note was originally convertible, at the election of the holder, at any time into common shares at a $0.75 per share. The Short-Term Convertible Notes bore interest of 7% per annum, payable in cash upon maturity. In connection with the issuance of the Short-Term Convertible Notes, the Company also issued warrants with a five-year term to purchase a total of 1,061,586 shares of common stock at an exercise price of $0.75. The Company determined the fair value of the warrants using the Black-Scholes option pricing model utilizing certain weighted-average assumptions, such as expected stock price volatility, term of the warrants, risk-free interest rate and expected dividend yield at the commitment date.

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The Company utilized the following weighted-average assumptions to value the above investor warrants:

	2015
Expected dividend yield	0%
Stock price volatility	88.79%
Expected term	5 years
Risk-free interest rate	1.46%-1.58%
Grant-date fair value	$0.52-$0.76

Additionally, at the commitment date, the Company determined that the conversion feature related to the Short-Term Convertible Notes was beneficial to the investors. As a result, the Company determined the intrinsic value of the beneficial conversion feature utilizing the fair value of the underlying common stock at the commitment date and the effective conversion price after discounting the Short-Term Convertible Notes for the fair value of the warrants. The fair value of the warrants and the intrinsic value of the conversion feature were recorded as a debt discounts to the Short-Term Convertible Notes, and a corresponding increase to additional paid-in capital. The debt discounts are amortized over the life of the Short-Term Convertible Notes. During the nine months ended February 29, 2016, the Company recognized approximately $1,784,000 as interest expense related to amortization of the debt discounts, and the Short-Term Convertible Notes were not outstanding during the nine months ended February 28, 2015. The unamortized discounts were fully amortized upon any conversion of the Short-Term Convertible Notes before maturity.

During the nine months ended February 29, 2016, the Company tendered an offer to settle the balances of the Short-Term Convertible Notes. The Company offered to exchange the Short-Term Convertible Notes for (i) the issuance of restricted shares of common stock, for the settlement of the balance of the Short-Term Convertible Notes, principal and accrued but unpaid interest as of September 21, 2015, which was the commitment date, at a conversion price of $0.675 per share, and (ii) the amendment of the related warrants to reduce the exercise price to $0.675 per share. The offer represented a 10.0% discount to $0.75, which was the current conversion price of the Short-Term Convertible Notes and current exercise price of the related warrants. On September 21, 2015, the offering period and withdrawal rights for the exchange offer expired, and the Company completed the exchange offer for approximately $2.7 million in aggregate original principal amount of Short-Term Convertible Notes.

Following the consummation of the exchange offer described above, an aggregate principal amount of $525,000 and accrued but unpaid interest of $17,830 converted into 723,773 shares of common stock. The principal and interest for Short-Term Convertible Notes that were not exchanged in the exchange offer, or that are not otherwise converted pursuant to their terms, became due and payable between October 30, 2015 and November 15, 2015, six months from their issuance. The Company repaid the remaining aggregate principal and interest on such Convertible Notes of approximately $789,000 Short-Term Convertible Notes on their respective maturity dates. Related to the tender offer conversions, the Company recognized approximately $330,000 in non-cash interest expense and approximately $108,000 commission expense to assist the Company in conversion of the debt at the commitment date.

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Activity related to the Short-Term Convertible Notes for the nine months ended February 29, 2016 and fiscal year ended May 31, 2015 was as follows:

	February 29, 2016	May 31, 2015
Face amount of Notes	$ 3,981,050	$ 3,981,050
Unamortized discounts		$ (2,390,063)
Tender offer conversions	(2,693,800)	
Conversions	(525,000)	
Payments upon maturity	(762,250)	
Total carrying value of Notes	$	$ 1,590,987

Note 4 Derivative Liability:

The following tables summarize the fair value of the derivative liability and linked common shares as of the derivative liability inception dates (September 26, 2014 and February 6, 2015) at February 29, 2016:

	September 26, 2014	February 6, 2015	May 31, 2015	February 29, 2016
Total derivative liability	$ 767,038	$ 403,266	$ 2,008,907	$
Shares indexed to derivative liability	2,000,000	1,500,000	5,185,185	

Changes in the fair value of the derivative liability, carried at fair value, are reported as Change in fair value of derivative liability in the Consolidated Statements of Operations. During the three and nine months ended February 29, 2016 and February 28, 2015, the Company recognized a non-cash gain of approximately $-0-, $647,000, $1,262,000 and $456,000, respectively due to the change in derivative liability related to the embedded derivative in the AVCP Notes.

ASC 815 does not permit an issuer to account separately for individual derivative terms and features embedded in hybrid financial instruments that require bifurcation and liability classification as derivative financial instruments. Rather, such terms and features must be combined together and fair valued as a single, compound embedded derivative. The Company selected a Binomial Lattice Model to value the compound embedded derivative because it believes this technique is reflective of all significant assumptions that market participants would likely consider in negotiating the transfer of this convertible note. Such assumptions include, among other inputs, stock price volatility, risk-free rates, credit risk assumptions, early redemption and conversion assumptions, and the potential for future adjustment of the conversion price due to a future dilutive financing.

Significant inputs and assumptions used in the Binomial Lattice Model for the derivative liability are as follows:

	September 26, 2014	February 6, 2015	May 31, 2015	June 24, 2015
Quoted market price on valuation date	$ 0.79	$ 0.96	$0.99	$ 0.90
Contractual conversion rate	$ 1.00	$ 1.00	$1.00	$ 1.00
Adjusted conversion price (a)	$ 0.9759	$ 1.0000	$0.675	$ 0.675
Contractual term to maturity (years)	2.00	0.49	0.18-1.33	0.12
Expected volatility	123%	124%	90%-114%	48%
Contractual interest rate	5%	2%	1.5%-5.0%	1.2%
Risk-free rate	0.59%	0.045%	0.041%-0.48%	0.001%
Risk adjusted rate	2.69%	2.78%	2.80%	2.80%
Probability of event of default	5.00%	5.00%	5.00%	5.00%

(a) The adjusted conversion price input used in the Binomial Lattice Model considers the potential for an adjustment to the stated conversion price due to a future dilutive issuance. This input was calculated using a probability-weighted approach which considered the likelihood of various scenarios occurring including (i) potential success or failure of various phases for PRO 140, (ii) the probability the Company will enter into a future financing and (iii) and the potential price of a future financing.

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The fair value of the derivative liability was significantly influenced by the Company s trading market price, stock price volatility, changes in interest, assumptions regarding the adjusted conversion price and early redemption or conversion of the AVCP Notes.

Note 5 Stock Options and Warrants

The Company has one active stock-based equity plan at February 29, 2016, the CytoDyn Inc. 2012 Equity Incentive Plan (the 2012 Plan) and one stock-based equity plan that is no longer active but under which certain prior awards remain outstanding, the CytoDyn Inc. 2004 Stock Incentive Plan (the 2004 Plan and, together with the 2012 Plan, the Incentive Plans). The 2012 Plan was approved by shareholders at the Company s 2012 annual meeting to replace the 2004 Plan and was subsequently amended by shareholder approval in February 2015 to increase the number of shares available for issuance from 3,000,000 to 5,000,000 shares of common stock. As of February 29, 2016, the Company had 930 shares available for future stock-based grants under the 2012 Plan.

Stock Options

During the nine months ended February 29, 2016, the Company granted annual stock option awards to directors to purchase a total of 350,000 shares of common stock with an exercise price of $0.975 per share. These option awards vest at 25% per quarter over one year. The grant date fair value related to these options was $0.49 per share.

During the nine months ended February 29, 2016 an additional stock option was granted to a director to purchase a total of 250,000 shares of common stock with an exercise price of $0.97, a five-year term and was fully vested upon grant date. The grant date fair value related to this option award was $0.43 per share. In addition, the Company granted a director an additional stock option for 100,000 shares of common stock with an exercise price of $0.84, a five-year term and vests 50% upon grant and 50% in one year. The grant date fair value related to this option award was $0.58 per share.

During the nine months ended February 29, 2016, the Company granted options to executive management and employees to purchase a total of 2,054,000 shares of common stock. The exercise prices range from $0.75 to $0.90 per share. Included in the awards covering 2,054,000 shares are options on 1,554,000 shares that vest based on certain performance targets as set forth in the stock option agreements, 400,000 shares that vest annually over three years, and one option covering 100,000 shares that vested 50% vested upon issuance with the other 50% to vest on the first anniversary of the date of grant. Each of the foregoing management options has a ten-year term. The grant date fair values related to these option awards range from $0.48 to $0.61 per share.

During the nine months ended February 29, 2016, the Compensation Committee of the Board of Directors of the Company determined to extend the expiration dates of certain outstanding stock option awards under the 2004 Plan and the 2012 Plan. For each outstanding stock option award issued to a current employee or director of the Company under the Incentive Plans that had a five-year expiration term, whether such award was vested or unvested, the expiration term was extended by an additional five years, but only to the extent that the award was not in-the-money based upon the closing price of the Company s Common Stock, or $0.81 per share. The other terms and conditions of such stock option awards, and all of the terms and conditions of any other stock option awards outstanding under the Incentive Plans, remained unchanged. The Company recognized a non-cash stock-based compensation expense of approximately $548,000 in the current period in connection with this extension.

In total, the Company extended the expiration dates on stock options covering 1,924,513 shares, with a weighted average exercise price of approximately $1.39 per share.

Warrants

During the nine months ended February 29, 2016, the Company issued common stock warrants covering 29,827,110 shares of common stock of which warrants covering 1,820,000 shares were granted to consultants, warrants covering 1,000,000 shares were granted to AVCP, as described in Note 3, and the warrants covering 22,209,178 shares and 4,797,932 shares were issued to investors and to the placement agent, respectively, in connection with the Company s private equity offerings, as described in Note 7. Each of the foregoing warrants issued to investors and to the placement agent has an exercise price of $0.75 per share and a five-year term and is immediately exercisable.

During the nine months ended February 29, 2016, the Company granted warrants to consultants covering a total of 1,820,000 shares of common stock at exercise prices ranging from $0.81 to $1.25 per share. These warrants are subject to various vesting schedules and expire five or ten years from the date of issuance. The grant date fair values range from $0.42 to $0.60 per share.

During the nine months ended February 29, 2016, holders of warrants covering 133,734 shares exercised the right to purchase such shares at $0.75 per share. The net proceeds received by the Company was approximately $94,300 from the exercise of warrants.

Compensation expense related to stock options and warrants for the three and nine months ended February 29, 2016 and February 28, 2015 was approximately $955,000 and $1,546,000 and $161,400 and $451,000, respectively. The grant date fair value of options and warrants vested during the three and nine-month periods ended February 29, 2016 and February 29, 2015 was approximately $362,000 and $686,000 and $171,000 and $481,000, respectively. As of February 29, 2016, there was approximately $998,000 of unrecognized compensation expense related to share-based payments for unvested options, which is expected to be recognized over a weighted average period of 1.20 years.

The following table represents stock option and warrant activity as of and for the nine months ended February 29, 2016:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Options and warrants outstanding at May 31, 2015	31,008,915	$ 0.88	2.94	$ 5,538,335
Granted	32,581,111	0.78		
Exercised	(388,442)			
Forfeited/expired/cancelled	(465,000)			
Options and warrants outstanding at February 29, 2016	62,736,584	0.82	3.72	7,645,082
Outstanding exercisable at February 29, 2016	58,349,129	0.82	3.50	7,451,385