

CytoDyn (CYDY)

SEC Must Immediately Halt this Stock Promotion Scheme

We cannot remember the last time we've seen a bigger joke of a stock. This is a \$5 billion market cap company with 10 employees who claims to have the cure for COVID with zero data and a CEO who sold >\$30 million of stock ~70% lower than yesterday's closing stock price.

The CEO has made inappropriate promotional claims like *"this looks the solution to coronavirus"* leading into his most recent stock sale.

On Feb 4th, 2020, the SEC issued an [Investor Alert](#) warning about COVID-related stock promotions. CytoDyn, a Vancouver based OTC-listed biotech company, appears to be one such stock promotion. The brazen stock promotion scheme should immediately be halted by the SEC.

Culper Research has also done good work here which covers the history of the company in more detail.

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CytoDyn has aggressively touted its investigational drug candidate, Leronlimab, as a potential treatment for COVID-19. However, there is zero scientific data to support this view. This has not prevented the company from making several misleading and disingenuous claims in an effort to generate hype around their drug candidate and stock price.

So far this year, CytoDyn has issued 51 press releases, conducted 5 conference calls, participated in no less than 24 interviews, and has utilized several third-party investor relations and stock newsletter services.

CytoDyn has used the increased attention to raise capital multiple times since January 2020. The company has regularly employed selective and incomplete disclosure in order to continue to promote the stock.

Below are the red flags that should be on the radar of the SEC:

- On April 27, 2020, CytoDyn held its latest investor conference call. Jacob Lalezari, the company's interim Chief Medical Officer (CMO) made several statements implying Leronlimab's efficacy in treating patients with COVID. Not only are these claims highly inappropriate given the lack of available data, Lalezari was presented as an independent medical authority with no financial interest in CytoDyn
 - ***"It's clear this drug is working, working better than we ever could have imagined. The sooner we bring relief to people, the better"***
 - ***"I think we've shown this could be the one drug that does it all"***
 - ***"There's no doubt in my mind anymore about how important this drug is going to be for COVID-19"***
- On the same conference call, CEO Nader Pourhassan said that he believed his mother-in-law was alive because of Leronlimab treatment. Though the Leronlimab trial received clearance in Nov 2018 and expects to enroll 48 patients, enrollment thus far has been just 3, of which 1 is the CEO's mother-in-law
 - In the absence of real clinical data, the company relies on buzzy anecdotal reports and makes grandiose claims such as ***"the patient is somebody close to me, in San Jose. This patient was ... essentially [on] life support ... and is now close to being off ventilator and they've already made plans to ship her to rehab to continue her care and physical therapy"*** (2:36, Apr 30th, 2020 [Proactive Investors](#))
- Prior to the April 27 call, the COVID-19 thesis put forth by management was that Leronlimab would aid in suppressing the cytokine storm which has been leading to complications in many cases. Before this point, Leronlimab was not framed as anti-viral. On April 24, a [letter to the editor](#) was published in the NEJM that included data from Kidney-transplant recipients that had been infected with COVID-19. 6 of 36 patients were administered Leronlimab. Only 1 those patients remained in stable condition without intubation. CytoDyn management failed to mention this important fact on their April 27 call despite indicating that the NEJM publication was one of the subjects of the call. They did briefly mention the reduction in IL-6 levels in treated patients, but failed to mention the clinical outcomes. Instead, the company pivoted its thesis and claimed that Leronlimab has been associated with reduction in viral load observed in blood plasma. This appears to be a bait and switch whereby management is attempting to avoid disclosing any negative information to investors. When asked to

elaborate on their new breakthrough by a participant on the call, the CEO refuses to provide any additional detail and ends the Q&A shortly thereafter

- On April 27, Sanofi / Regeneron [announced](#) disappointing results from their phase 2 trial testing Kevzara (an IL-6 inhibitor) on COVID-19 patients. This has potential read-through to CytoDyn's original hopes for Leronlimab, which is likely another reason the company decided to pivot away from their original thesis
- CytoDyn's March 16 press release indicates Leronlimab is being explored as *"therapy for patients who experience respiratory complications"* from COVID-19. There is no mention of anti-viral properties at any point before the April 27 call
- While CytoDyn continues to avoid disseminating any negative news to investors, the company never wastes an opportunity to tout anecdotal COVID-19 success stories. This selective disclosure is alarming because it fails to portray an accurate picture to investors. To-date the company has not disclosed full data from the patients they have treated
 - ***"patients with mild-moderate disease were given a dose of leronlimab, they very quickly come off oxygen. We have many patients now who were intubated, they were given a dose of leronlimab, they come off intubation"*** (6:29, Apr 13th, 2020 [Proactive Investors](#))
 - In response to why the HIV BLA hasn't yet been submitted: ***"saving these peoples lives today is the most urgent thing we could be doing ... we said "ok lets try it" and so we had to put all of our team to save peoples lives. Thank you, the shareholders, for allowing the company to be at this point to be able to do that. So we saved some lives, its been on the news, it's no fluke or hoax, it happened"*** (4:11). ***"For the good of the humanity we're going to try it and now it looks like, to me, that this is the solution to coronavirus"*** (5:30, Apr 15th, 2020 [Proactive Investors](#))
 - ***"at the end of the day that [offering some ray of hope to help save the lives of loved ones] is what keeps CytoDyn working, it's always been a company with huge heart and a major focus on patients and it's also something that keeps us working long hours in the lab to figure this disease out, and I think we have ... the results explain themselves"*** (8:05, Apr 30th, 2020 [Proactive Investors](#))
- The company has stated several times that it recently raised capital in the form of debt convertible into stock at \$4.50 per share with no warrants.

The company has attempted to frame this as validation of their success – the supposed ability to raise external capital at favorable terms. However, what CytoDyn fails to mention is that the convertible note has a reset feature – its conversion price gets adjusted down to wherever the company's next equity deal gets priced. As a result, the sticker price of the convertible financing is largely irrelevant. Furthermore, the financing included an original issuer discount (OID) of \$2.1 million, representing ~12% of the total principal amount of the financing. Iliad Research and Trading has a history of financing questionable public microcap entities with similar structured financings

- On April 28, 2020, CytoDyn disclosed that shareholders, including three former Board Members, had filed a lawsuit against CytoDyn for unjust enrichment. The three former Board Members include Anthony Caracciolo (2012-2019), Greg Gould (2007-2019), and Carl Dockery (2014-2019), where all three resigned in 2019. Part of the complaint is related to a contingent share award disclosed on January 28, 2020 whereby management was to be granted 11.65m shares (currently worth >US\$30m) if CytoDyn achieves breakthrough designation within 6 months. The value of this award is egregious relative to the milestone involved and the pre-revenue nature of the company. This award supports the view that CytoDyn is a stock promotion scheme intended to enrich insiders
- Days later, on Apr 30th, 2020, CytoDyn filed an **S-3/A which includes 2 million \$0.63 warrants issued to CEO Nader Pourhassan in connection with the above-mentioned share grant [S-3/A](#)**. The S-3 also listed Michael McCarthy from the Dream Team Group, a former stock promotion scheme exposed by Adam Feuerstein and Richard Pearson [Buysstrike](#)
- **CEO Nader Pourhassan ultimately sold ~10 million shares (>\$30 million) between Apr 30th and May 4th**
- There is an alarming level of management and board turnover as well as troubling allegations that the CEO has ignored concerns around patient safety from the company's former CMO. This struggle resulted in three additional board member resignations and was well-highlighted in a lawsuit filed by the same CMO (lawsuit number: 1:19-cv-01563-RGA). Several of these resigned board members are involved in the above-referenced unjust enrichment lawsuit

						Significant 2H19/1H20 Turnover	
Age	Name	FY16	FY17	FY18	FY19	FY20	
Management							
n/a	Craig S. Eastwood				VP	CFO	
67	Nitya G. Ray					CTO	
62	Richard G. Pestell				Chief Medical Officer		1
78	Denis R. Burger				Chief Science Officer		
68	Michael D. Mulholland				CFO, Treasurer, Corporate Secretary (util Nov. 2019)		CFO
57	Nader Z. Pourhassan				CEO		
Board							
n/a	Samir Patel						Director
n/a	Alan P. Timmins						Director
59	David F. Welch					Director	
62	Richard G. Pestell				Director		
55	Michael A. Klump				Director		
50	Scott A. Kelly		Director		Chairman		
57	Nader Z. Pourhassan				President		
60	Jordan Naydenov				Director		
54	Gregory A. Gould				Director		
58	Carl C. Dockery				Director		
65	Anthony D. Caracciolo	Director	Chairman			1	
68	Bruce A. Montgomery		Director				
78	Denis R. Burger		Director				

Cautious Investing to All

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