CYTODYN INC
Form 10QSB
October 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-QSB

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

For Quarter Ended: August 31, 2005 Commission File Number 000-49908

CYTODYN, INC.

(Exact name of small business issuer as specified in its charter)

COLORADO	75-3056237
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 W. DeVargas Street, Suite 1, Santa Fe, New Mexico	87501
(Address of principal executive offices)	(Zip code)

(505) 988-5520
(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Number of shares outstanding at April 18, 2005
Common stock, no par value	8,519,307

Transitional Small Business Disclosure Format: Yes No X

This document is comprised of 18 pages.

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Part I, Item 1. Financial Statements

CYTODYN, INC.
(A Development Stage Company)
Condensed Balance Sheet
(Unaudited)

August 31, 2005

Assets

Current assets:	
Cash	$ 98,526
Prepaid expenses	26,409
Total current assets	124,935
Furniture and equipment, less accumulated depreciation of $1,316	3,222
Intangible asset, less accumulated amortization of $1,047	1,853
Deposit	495

	$ 130,505
Liabilities and Shareholders' Deficit	
Current liabilities:	
Accounts payable	$ 75,794
Accrued liabilities	1,850
Indebtedness to related parties (Note 2)	572,402
Total curernt liabilities	650,046
Commitments (Note 7)	--
Shareholders' deficit:	
Preferred stock, no par value; 5,000,000 shares authorized, -0- shares issued and outstanding	--
Common stock, no par value; 25,000,000 shares authorized, 8,519,307 shares issued and outstanding	2,225,967
Additional paid-in capital	40,942
Accumulated deficit	(1,601,912)
Deficit accumulated during development stage	(1,184,538)
Total shareholders' deficit	(519,541)
	$ 130,505

See accompanying notes to condensed financial statements

CYTODYN, INC.
(A Development Stage Company)
Condensed Statements of Operations
(Unaudited)

	Three Months Ended August 31,	
	2005	2004
Operating expenses:		
General and administrative	$ 67,057	$ 120,409
Depreciation	488	292
Total operating expenses...	67,545	120,701
Operating loss	(67,545)	(120,701)
Interest income	14	176
Interest expense	(1,880)	(182)
Loss before income taxes...	(69,411)	(120,707)
Income tax provision (Note 4)	--	--

Net loss	$ (69,411)	$ (120,707)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Basic and diluted weighted average common shares outstanding	8,489,453	8,069,307

See accompanying notes to condensed financial statements

CYTODYN, INC.
(A Development Stage Company)
Condensed Statements of Changes in Shareholders' Deficit
(Unaudited)

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amo
Balance at June 1, 2005	--	$ --	8,069,307	$ 1,91
June through July 2005, sale of common stock less offering costs of $27,867 ($.75/share) (Note 5)	--	--	289,890	18
August 2005, common shares issued to extinguish promissory notes payable and related interest ($.75/share) (Note 3)...	--	--	160,110	12
Net loss, year ended May 31, 2004	--	--	--	
Balance at August 31, 2005	--	$ --	8,519,307	$ 2,22

	Additional Paid-in Capital	Accumulated Deficit	Deficit Accumulated During Development Stage	T
Balance at June 1, 2005	$ 40,942	$(1,601,912)	$(1,115,127)	$ (
June through July 2005, sale of common stock less offering costs of $27,867 ($.75/share) (Note 5)	--	--	--	
August 2005, common shares issued to extinguish promissory notes payable and				

related interest ($.75/share) (Note 3)...	--	--	--	
Net loss, year ended May 31, 2004	--	--	(69,411)	
Balance at August 31, 2005	$ 40,942	$(1,601,912)	$(1,184,538)	$ (

See accompanying notes to condensed financial statements

CYTODYN, INC.
(A Development Stage Company)
Condensed Statements of Cash Flows
(Unaudited)

	Three Months Ended August 31,	
	2005	2004
Net cash used in operating activities	$ (57,892)	$ (107,874)
Cash flows from investing activities:		
Property and equipment purchases	(936)	(3,167)
Net cash used in investing activities	(936)	(3,167)
Cash flows from financing activities:		
Capital contributions by president (Note 2)	--	512
Proceeds from notes payable issued to related parties (Note 5)	5,197	--
Payment of notes payable to related parties (Note 2)...	(38,324)	--
Proceeds from the sale of common stock	217,418	--
Payments for offering costs	(27,867)	--
Net cash provided by financing activities	156,424	512
Net change in cash	97,596	(110,529)
Cash, beginning of period	930	186,964
Cash, end of period	$ 98,526	$ 76,435

Supplemental disclosure of cash flow information:

Cash paid during the period for:		
Income taxes	$ --	$ --
Interest	$ 14	$ 182
Noncash investing and financing transactions:		
Common stock issued to extinguish promissory notes payable and related interest (Note 3)	$ 122,748	$ --

See accompanying notes to condensed financial statements

CYTODYN, INC.

(A Development Stage Company)
Notes to Condensed Financial Statements
(Unaudited)

Note 1: Basis of Presentation

The condensed financial statements presented herein have been prepared by the Company in accordance with the instructions for Form 10-QSB and the accounting policies in its Form 10-KSB filed for the year ended May 31, 2005 and should be read in conjunction with the notes thereto.

In the opinion of management, the accompanying condensed financial statements contain all adjustments (consisting only of normal recurring adjustments) which are necessary to provide a fair presentation of operating results for the interim periods presented. The results of operations presented for the period ended August 31, 2005 are not necessarily indicative of the results to be expected for the year.

The Company is in the development stage in accordance with Statements of Financial Accounting Standards (SFAS) No. 7 "Accounting and Reporting by Development Stage Enterprises".

Financial data presented herein are unaudited.

Note 2: Related Party Transactions

During the nine months ended February 28, 2005, the Company's president paid administrative expenses on behalf of the Company totaling $5,512. The payments have been recorded as contributed capital and is included in the accompanying condensed financial statements as "Additional paid-in capital".

As of May 31, 2005, the Company owed two officers promissory notes totaling of $86,502. The notes are due on demand and carry no interest rate. On June 2, 2005, an officer advanced the Company an additional $5,000 for working capital; on July 13, 2005, the Company repaid an officer $38,324; and on August 31, 2005, an officer advanced the Company $197. Management plans to repay the notes through cash payments, issuance of the Company's common stock, or a combination thereof. The balance due of $53,375 remained unpaid at August 31, 2005 and is included in the accompanying condensed financial statements as "Indebtedness to related parties".

A director has provided legal services to the Company over the past several years. As of August 31, 2005, the Company owed the director $87,185 for legal services, which is included in the accompanying financial statements as

"Indebtedness to related parties". As of August 31, 2005, no arrangements had been made for the Company to repay this obligation. There is no interest and the note is due on demand. The Company anticipates that the director will continue to provide legal services in the future.

The Company's director, Peggy C. Pence, PhD., is the President and Chief Executive Officer of Symbion Research International, Inc. ("Symbion"). On January 5, 2005, the Company entered into a buy-sell agreement to purchase certain intellectual property owned by Symbion. The agreement describes the intellectual property in detail which summarized, is the Phase I clinical data and the protocol for the Phase II/III study. This intellectual property is necessary to obtain approval for, and to conduct, further FDA clinical tests of Cytolin. Cytolin is a potential new drug being developed by the company for the treatment of Human Immunodeficiency Virus ("HIV"). Under the terms of this agreement:

- The Company may purchase Symbion's Phase I clinical data in connection with obtaining approval from the FDA to conduct the Phase II/Phase III studies for Cytolin.
- The Company will grant 83,122 non-qualified stock options with an exercise price of $.75 per share that will vest immediately and be exercisable over 5 years.
- The Company will pay $25,000 to Symbion by February 10, 2005, 30 days after execution of the agreement.
- The Company will pay $275,000 to Symbion once the Company's secondary financing is received.

The Company paid Symbion $25,000 out of loan proceeds received in March 2005. Although the payment was late, Symbion accepted it and the contract is in force. In the event the Company's shareholders do not approve the Company's option plan by December 31, 2005, the Company will pay Symbion $62,342.

The results of the Phase II/III studies for Cytolin shall be the sole property of the Company upon Symbion's receipt of the final payment called for by this agreement. If all remaining payments are not received, the property shall revert to Symbion. The balance due of $337,342 is included in the accompanying financial statements as "Indebtedness to related parties".

Note 3: Notes Payable

As of May 31, 2005, the Company had seven unsecured notes payable to individuals, totaling $121,000. The notes were issued in February and March 2005, carried a 5% interest rate, and were to mature one year from the date of the note. On August 29, 2005, the Company extinguished the outstanding promissory notes at related accrued interest with the issuance of 160,110 shares of its common stock.

Note 4: Income Taxes

The Company records its income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". The Company incurred net operating losses for all periods presented resulting in a deferred tax asset, which was fully allowed for by a valuation allowance; therefore, the net benefit and expense resulted in $-0- income taxes.

Note 5: Shareholders' Equity

Common Stock Sales The Company filed a Registration Statement on Form SB-2 with the SEC to offer for sale 450,000 common shares at a price of $.75 per share. The SEC declared the Form SB-2 effective June 17, 2005. The Company completed its public offering on July 31, 2005. The Company sold 289,890 shares of its common stock for net proceeds of $189,551, after deducting offering costs totaling $27,867.

Note 6: Commitment and Contingency

The Company has signed Personal Service Agreements with three officers that cover the two years ended May 31, 2005 and 2006. Under the terms of the agreements, if an officer is terminated by the Company without cause or terminates service for good cause within three months of a change in control, the Company is required to pay the officer the balance of the base salary for the term of the agreement and for an additional 12 months after the expiration of the term.

Note 7: General and Administrative Expenses General and administrative expenses consist of the following:

	For The Three Months Ended August 31,	
	2005	2004
Salaries and payroll taxes.....	$ 42,798	$ 41,376
Legal	--	33,737
Other professional fees	1,000	3,094
Patent fees	4,964	--
Insurance	10,177	36,100
Office, travel, and other	8,118	6,102
	$ 67,057	$ 120,409

Note 8: Financial Information - Development Stage

Following is the Statement of Operations for the period in which the Company has been in the development stage as required by SFAS No. 7.

	October 28, 2003 Through August 31, 2005
Operating expenses:	
General and administrative	$ 770,007
Legal fees, related party	45,950
Depreciation	2,363
Research and development.....	362,342
Total operating expenses	1,180,662
Operating loss	(1,180,662)
Interest income	591
Interest expense	(4,467)
Loss before income taxes	(1,184,538)
Income tax provision	--

Net loss	$ (1,184,538)

Following is the Statement of Cash Flows for the period in which the Company has been in the development stage as required by SFAS No. 7.

October 28, 2003 Through August 31, 2005

Net cash used in operating activities	($1,109,466)
Cash flows from investing activities:	
Equipment purchases	(7,438)
Net cash used in investing activities	(7,438)
Cash flows from financing activities:	
Capital contributions by officer	5,512
Proceeds from notes payable issued to related parties	501,691
Repayment of notes payable to related parties	(88,324)
Proceeds from notes payable issued to individuals	121,000
Proceeds from the sale of common stock	757,418
Payment of offering costs	(81,867)
Net cash provided by financing activities	1,215,430
Net change in cash	$ 98,526
Cash, beginning of period	$ --
Cash, end of period	$ 98,526
Supplemental disclosure of cash flow information:	
Income taxes	$ --
Interest	$ 701
Non-cash investing and financing transactions:	
Net assets acquired in exchange for common stock in CytoDyn/Rexray business combination	$ 7,542
Common stock issued to former officer to repay working capital advance	$ 5,000
Common stock issued to extinguish promissory note payable and related interest	$ 120,082

Note 9: Litigation

All current litigation concerns the efforts of the former C.E.O. of Amerimmune Pharmaceuticals, Inc. to take our technology for his family of closely held companies.

Rex H. Lewis, a Defendant and former director and C.E.O. of Amerimmune Pharmaceuticals, Inc. filed a First Amended Cross-Complaint against CytoDyn of New Mexico, Inc., (predecessor company) Allen D. Allen, Corinne E. Allen, Ronald J. Tropp, Brian J. McMahon , Daniel M. Strickland, M.D. and unknown others designated as "Does 101-150".

The Cross-Complaint was settled pursuant to a settlement agreement entered into by the parties involved. The terms of the agreement are confidential. Maya LLC, Rex Lewis's company, may file an action against us in the future.

CytoDyn, Inc. and Allen D. Allen v. Amerimmune, Inc. and Amerimmune
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Pharmaceuticals, Inc. v. Biovest International, Inc.

Commonwealth of Massachusetts, Superior Court, Worcester County, Civil Action
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No. 05-0452-C.

Nature of the claims:

The Company and Allen filed a complaint against Amerimmune, Inc. and Amerimmune Pharmaceuticals, Inc. (together, "Amerimmune") to domesticate an October 4, 2004 judgment that the Company and Allen obtained against Amerimmune in the Superior Court of California for Ventura County, case number SC-039250. Further, the Company and Allen named Biovest International, Inc. ("Biovest") as a trustee-defendant because Biovest possesses a Cell-Bank, the rights to which the Company and Allen own.

Progress to Date:

The Company and Allen were successful in having the California judgment domesticated. Further, the Company and Allen were successful in "charging" Biovest and securing an order that Biovest transfer the Cell-Bank to the Company and Allen. However, the transfer has not occurred because recently Amerimmune's purported successor-in-interest, Maya, Inc. ("Maya"), has sought to intervene in the case, alleging a competing right to the Cell-Bank. The Court recently heard oral argument on Maya's Motion to Intervene and has taken the Motion under advisement. If Maya's Motion to Intervene is denied, the Cell-Bank will be transferred to the Company and Allen, and the litigation will be concluded (absent an appeal). Alternatively, if Maya's Motion to Intervene is granted, the Cell-Bank will not be transferred to any person or entity pending a determination by the Court of the parties' respective rights to the Cell-Bank.

The Company's Response:

The Company has a superior right to the Cell-Bank, and the Company intends to litigate the matter vigorously. The outcome of the case is uncertain, however, in the opinion of our attorneys, the company's claim to the Cell-Bank is strong.

Other legal/patent issues:

Cytodyn has recently discovered that former employees of ex-licensee, Amerimmune Inc., are attempting to convert technology previously adjudicated by the Superior Court of California, County of Ventura to belong to Symbion Research International, LLC. The technology involves LFA-1 Alpha subunit antibodies and the use of the antibodies to treat HIV-infected patients. The former employees have filed two U.S. patent applications and several foreign patent applications based on a derivative international patent application. Symbion is taking action in U.S. District Court to correct the inventorship and assignee in these applications.

Background

Cytodyn granted a license in its patented technology to Amerimmune Inc., which represented that it would assist in obtaining FDA approval of Cytolin(R). Amerimmune in turn contracted with Symbion Research International, LLC to assist with the clinical trials of Cytolin(R). Symbion sued Amerimmune in 2003 in Superior Court of California, County of Ventura asserting breach for non-payment for services performed. Symbion prevailed in that suit and the Ventura Court awarded title to all technology developed during its relationship with Amerimmune to Symbion. This technology is the subject matter of the patent applications filed by the former employees of ex-licensee Amerimmune.

Part I. Item 2. Management's Discussion and Analysis or Plan of Operation

Plan of Operation

During the next 12 months, our objectives are

- to conduct the further clinical trials needed to get Cytolin to market
- to continue our efforts to protect our technology by obtaining additional patents in The United Kingdom, the European Union and Hong Kong and
- Enforcing court judgements that have been awarded to us and Symbion Research International, Inc.
- to market our shares and establish a solid reasonable market capitalization,
- to raise approximately $3 to $5 million in additional funds to support our research and development efforts, the clinical trials relating to Cytolin, and our general and administrative expenses; and
- to explore joint venture arrangements for other possible pharmaceutical products.

Continuing Clinical Trials:

Phase I clinical trials were conducted by Symbion Research International under the sponsorship of Amerimmune, Inc. during 2002. We believe that the data from these trials support approval by the FDA of Phase II trials. The results of the Phase I clinical trials were awarded to Symbion by the Superior Court of California due to a breach of contract on the part of Amerimmune.

Projected costs to complete our research and development and to obtain FDA approval Phase II clinical trials

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We have negotiated with Symbion International for the right to use the Phase 1 data for a total of $362,000 and to seek approval for the Phase II trials from the FDA. If the Phase II study is approved by the FDA, we expect it, together with the pre-Phase II efforts, to cost an estimated $2,050,000 to $3,350,000 for Symbion to conduct the clinical trials, plus estimated manufacturing and supply costs of $350,000 to $400,000 and $362,000 for the Phase Ia/b data for a total of $2,762,000 to $ 4,112,000.

Timing and anticipated completion dates for research and development.

These trials can take anywhere from 29 to 42 months. Until we have met with the FDA, which we hope to do within the next two months, we cannot be certain what additional studies, assuming that Phase II study supports the efficacy and safety of Cytolin, will be required to receive marketing approval.

Date we expect to begin benefiting from the product:

We expect to complete our research and development of all Cytolin clinical trials needed for approval of a marketing application if at all by December 2009.

Risks and uncertainties associated with completing development within reasonable period of time and if products are not completed on a timely basis:

Even if we are able to complete the development within a reasonable period of time our competitors could still come out with something competitive to our product. Toxicity in the product could go undetected until Phase IV Safety Surveillance after drug approval. We may have to continue to litigate to protect technology, or challenges to patents that have not yet expired, etc. The medical community may lack of acceptance of our product. There may be an inability to secure 3rd party payees such as if medicare would cover costs. Post registration manufacturing problems or downturn of economy or industry could also be risks.

If we are unable to complete clinical trials on a timely basis, with favorable results, our costs will increase significantly and we may not have enough capital to support further research and development and continue in business. Also, if we incur significant delays in being able to market our product, even if we are ultimately able to do so, we will be delayed in earning revenues and probably will require additional financing to continue in business.

Patents

During fiscal year 2004, several European patents were granted. The new patents are covered by our License Agreement with Allen D. Allen, our president that gives us the exclusive right to develop his technology worldwide. These patents are designated European Patent No. 94 912826.8, for the United Kingdom, Germany, France, Switzerland, Italy, the Netherlands, Portugal, Spain, and Sweden, and are the counterparts to our United States Patent No. 5424066. Patents are pending in those same countries which, if granted, will be the equivalent of our United States Patent No. 5651970. We estimate the costs associated with these pending patents to be approximately $65,000, including amounts we have already spent. We may file additional patents during the current fiscal year if our research and development efforts warrant them, but we do not have any such

potential patents identified at this time other than Hong Kong. The license acquired gives us the right to develop Mr. Allen's worldwide. Patents.

Litigation

For a thorough discussion of our pending litigation, please see the section entitled "Legal Proceedings."

Establishing a Market and Obtaining Funding

On June 17, 2005 5:00pm EST, the Securities and Exchange Commission declared our public registration prospectus effective. 450,000 shares were then sold at $0.75 per shares and the offering was closed July 31, 2005. We are awaiting the assignment of a trading symbol and "a trade date" from the NASD. The proceeds from the public offering will pay for company expenditures through January 2006. We will require additional funding during the 2006 fiscal year in order to continue with research and development efforts and to stay in business. If we are able to complete further offerings, we will be not be able to pay for the company's expenses for more than 6 months. Additional funding will have to occur within the next twelve months in order to continue operations. The amount of that funding is directly related to the clinical trials we are able to conduct and the amounts we will need to continue operations.

We will attempt to create a solid market for our company's shares once, and if we are trading on the OTCBB. We believe this will help obtain additional funding by creating investor confidence in our company.

In addition to operating funds, we will need from approximately $2,762,000 to $4,112,000 for research and development, including clinical trials, and manufacturing and supply costs, depending upon whether we are approved by the FDA to conduct a Phase II study.

We do not have any of this funding arranged or secured, and we do not yet have plans for raising the funding we require. We anticipate that we will seek the funding through further equity offerings, either by private placement or by registered offering, or by possible joint venture arrangements with other parties. If we are unable to secure the necessary funding, we will not be able to conduct our research and development activities or to continue in business.

Joint Ventures

Buy-Sell Agreement with Symbion Research International.
Effective January 5, 2005.

Our director, Peggy C. Pence, PhD., is the President and Chief Executive Officer of Symbion Research International, Inc. On January 5, 2005, we entered into a buy-sell agreement to purchase intellectual property owned by Symbion. The agreement describes the intellectual property in detail which summarized, is the Phase 1 clinical data and the protocol for the Phase II study.

Under the terms of this agreement:

- CytoDyn, Inc may purchase Symbion's Phase I clinical data in connection with obtaining approval from the FDA to conduct the Phase II/Phase III stud(ies) for Cytolin.
- CytoDyn, Inc will grant 83,122 non-qualified stock options with an exercise price of $.75 per share that will vest immediately and be exercisable over 5 years.
- CytoDyn, Inc will pay $25,000 to Symbion by February 10, 2005, 30 days

after execution of the agreement.

- CytoDyn, Inc will pay $275,000 to Symbion once our secondary financing is received.

We have paid Symbion $25,000 out of the loan proceeds we received in March 2005. Although the payment was late, Symbion has accepted it and the contract is in force.

In the event the shareholders do not approve the company's option plan by December 31, 2005, CytoDyn, Inc will pay Symbion $62,341.50 in U.S. dollars.

The results of the Phase II/III stud(ies) for Cytolin shall be the sole property of CytoDyn, Inc upon Symbion's receipt of the final payment called for by this agreement. If all remaining payments are not received, the property shall revert to Symbion.

Consulting Agreement with Jacob Lalezari, M.D.

We have entered into a consulting agreement with Dr. Jacob Lalezari to consult with us on our next clinical trials, including but not limited to, revising the protocol, conducting clinical trials as the medical monitor. Dr. Lalezari is a premier AIDS doctor in the U.S who has conducted numerous clinical trials for big pharmaceutical companies such as, Glaxo, Human Genome Sciences, ViTex, Pfizer, Xcyte, BMS, Roche, and Aventis. His expertise and cooperation could help us get this treatment approved the fastest, safest way possible.

Confidentiality Agreement with Paramount Capital

We have signed a confidentiality agreement with Paramount Biosciences, LLC, where Paramount capital agrees not to divulge any confidential information while conducting due diligence on our company. They are evaluating the possibility of providing financing, or assisting us in the development of the product.

Contract with Mayo Clinic

We entered into a contract with Mayo Clinic to provide for the services of Dr. Donald W. Northfelt, the principal investigator of the Phase I trials, to participate in meeting with the FDA. Please see Exhibit 10.1.

Exploring Other Joint Ventures

While we continue to pursue FDA approval of our Cytolin product, we are also considering entering into joint ventures to develop other types of products. We have, for instance, entered into a nondisclosure agreement with another development stage biotech company to discuss the possibility of the joint development of drugs to treat neuropsychiatric diseases or disorders. These discussions are in the early stages and we do not know if we will enter into a joint venture or other arrangement with this company or if any products might ensue from our efforts.

We may also pursue joint ventures or other arrangements to obtain funding for our Cytolin-related endeavors, but we have not pursued this possibility and do not have any prospects at this time.

Other Matters

We do not expect, in the next 12 months, to make any significant expenditures for equipment. We will continue to staff the company as funds become available.

We plan to hire two to three additional financial, medical or business experts in the near future. During the fiscal year ended May 31, 2005, we expended $157,927 in professional fees, consisting of $129,664 legal fees and professional fees incurred in connection with our public registration, our additional patent protection filings, and litigating our pending lawsuits, and $10,676 in accounting and auditing fees. Transfer agent fees and EDGAR filing fees were $12,643. $5,000 was paid for consulting work to Symbion as under our consulting agreement. For the year ended May 31, 2005, $87,185 in legal fees was owed to our director, Ronald Tropp. We expect to incur similar fees in the current fiscal year, based on our research and development efforts, our need for additional capital, and continuing litigation.

Part I. Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

We maintain controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, our chief executive officer and the chief financial officer concluded that our disclosure controls and procedures were adequate.

b. Changes in internal controls

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive officer and chief financial officer.

Part 2. Other Information

Item 1 - Legal Proceedings.

All current litigation concerns the efforts of the former C.E.O. of Amerimmune Pharmaceuticals, Inc. to take our technology for his family of closely held companies.

Rex H. Lewis, a Defendant and former director and C.E.O. of Amerimmune Pharmaceuticals, Inc. filed a First Amended Cross-Complaint against CytoDyn of New Mexico, Inc., (predecessor company) Allen D. Allen, Corinne E. Allen, Ronald J. Tropp, Brian J. McMahon , Daniel M. Strickland, M.D. and unknown others designated as "Does 101-150".

The Cross-Complaint was settled pursuant to a settlement agreement entered into by the parties involved. The terms of the agreement are confidential. Maya LLC, Rex Lewis's company, may file an action against us in the future.

CytoDyn, Inc. and Allen D. Allen v. Amerimmune, Inc. and Amerimmune Pharmaceuticals, Inc. v. Biovest International, Inc.

Commonwealth of Massachusetts, Superior Court, Worcester County, Civil Action No. 05-0452-C.

Nature of the claims:

The Company and Allen filed a complaint against Amerimmune, Inc. and Amerimmune Pharmaceuticals, Inc. (together, "Amerimmune") to domesticate an October 4, 2004 judgment that the Company and Allen obtained against Amerimmune in the Superior Court of California for Ventura County, case number SC-039250. Further, the Company and Allen named Biovest International, Inc. ("Biovest") as a trustee-defendant because Biovest possesses a Cell-Bank, the rights to which the Company and Allen own.

Progress to Date:

The Company and Allen were successful in having the California judgment domesticated. Further, the Company and Allen were successful in "charging" Biovest and securing an order that Biovest transfer the Cell-Bank to the Company and Allen. However, the transfer has not occurred because recently Amerimmune's purported successor-in-interest, Maya, Inc. ("Maya"), has sought to intervene in the case, alleging a competing right to the Cell-Bank. The Court recently heard oral argument on Maya's Motion to Intervene and has taken the Motion under advisement. If Maya's Motion to Intervene is denied, the Cell-Bank will be transferred to the Company and Allen, and the litigation will be concluded (absent an appeal). Alternatively, if Maya's Motion to Intervene is granted, the Cell-Bank will not be transferred to any person or entity pending a determination by the Court of the parties' respective rights to the Cell-Bank.

The Company's Response:

The Company has a superior right to the Cell-Bank, and the Company intends to litigate the matter vigorously. The outcome of the case is uncertain, however, in the opinion of our attorneys, the company's claim to the Cell-Bank is strong.

Other legal/patent issues:

Cytodyn has recently discovered that former employees of ex-licensee, Amerimmune Inc., are attempting to convert technology previously adjudicated by the Superior Court of California, County of Ventura to belong to Symbion Research International, LLC. The technology involves LFA-1 Alpha subunit antibodies and the use of the antibodies to treat HIV-infected patients. The former employees have filed two U.S. patent applications and several foreign patent applications based on a derivative international patent application. Symbion is taking action in U.S. District Court to correct the inventorship and assignee in these applications.

Background

Cytodyn granted a license in its patented technology to Amerimmune Inc., which represented that it would assist in obtaining FDA approval of Cytolin(R). Amerimmune in turn contracted with Symbion Research International, LLC to assist with the clinical trials of Cytolin(R). Symbion sued Amerimmune in 2003 in Superior Court of California, County of Ventura asserting breach for non-payment for services performed. Symbion prevailed in that suit and the Ventura Court awarded title to all technology developed during its relationship with Amerimmune to Symbion. This technology is the subject matter of the patent applications filed by the former employees of ex-licensee Amerimmune.

Item 2 - Changes in Securities and Small Business Issuer Purchases of Equity Securities.

The Company filed a Registration Statement on Form SB-2 with the SEC to offer for sale 450,000 common shares at a price of $.75 per share. The SEC declared the Form SB-2 effective June 17, 2005. The Company completed its public offering on July 31, 2005. The Company sold 289,890 shares of its common stock for net proceeds of $189,551, after deducting offering costs totaling $27,867.

As of May 31, 2005, the Company had seven unsecured notes payable to individuals, totaling $121,000. The notes were issued in February and March 2005, carried a 5% interest rate, and were to mature one year from the date of the note. On August 29, 2005, the Company extinguished the outstanding promissory notes at related accrued interest with the issuance of 160,110 shares of its common stock.

Item 3 - Defaults Upon Senior Securities.

No response required.

Item 4 - Submission of Matters to a Vote of Security Holders.

No response required.

Item 5 - Other Information.

No response required.

Item 6 - Exhibits and Reports on Form 8-K.

(a) Exhibits:

1. 31.1: Certification by the CEO

2. 31.2: Certification by the CFO

3. 32.1: Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - CEO

4. 32.2: Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - CFO

5. 10.1 Contract with Mayo Clinic

a. Reports on Form 8-K:

None.

SIGNATURES

The financial information furnished herein has not been audited by an independent accountant; however, in the opinion of management, all adjustments (only consisting of normal recurring accruals) necessary for a fair presentation of the results of operations for the three months ended August 31, 2005 have been included.

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CYTODYN, INC.
(Registrant)

DATE: October 13, 2005

BY: /s/ Allen D. Allen

Allen D. Allen
President and CEO