CYTODYN INC
Form 10KSB/A
September 01, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
FORM 10-KSB/Amended

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____to _____

Commission File Number 000-49908

CYTODYN, INC.
(Name of small business issuer in its charter)

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

227 E. Palace Avenue, Suite M Santa Fe, New Mexico 87501
(Address of principal executive offices) (Zip Code)

Telephone Number: 505-988-5520

Securities Registered under Section 12(b) of the Exchange Act: None

Securities Registered under Section 12(g) of the Exchange Act:

Common Stock, no par value

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation SB contained in this form and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Revenues for the most recent fiscal year $0

Aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the price at which the common equity was

sold, or the average bid and asked price of common stock as of a specified within the past 60 days. $12,379,378

Number of shares of common stock outstanding as of August 29, 2006: 11,225,264

CYTODYN, INC

FORM 10-KSB FOR THE YEAR ENDED MAY 31, 2006

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Item 1. Description of Business

Our Business

In October 2003 we entered into an Acquisition Agreement with CytoDyn of New Mexico, Inc., pursuant to which we effected a two for one reverse split of our common stock, and amended our articles of incorporation to change our name from Rexray Corporation to CytoDyn, Inc. Pursuant to the acquisition agreement, we were assigned the patent license agreement dated July 1, 1994 between CytoDyn of New Mexico and Allen D. Allen covering three United States patents along with

foreign counterpart patents which describe a method for treating HIV disease with the use of monoclonal antibodies. We also acquired the trademarks, CytoDyn and Cytolin, and a related trademark symbol. The license acquired gives us the worldwide, exclusive right to develop, market and sell the HIV therapies from the patents, technology and know-how invented by Mr. Allen. The term of the agreement is for the life of the patents of which the first shall expire in 2013. As consideration for the intellectual property and trademarks we paid CytoDyn of New Mexico $10,000 in cash and issued 5,362,640 post-split shares of common stock to CytoDyn of New Mexico.

We have three full time employees, Allen D. Allen, our Chief Executive Officer, and Corinne Allen, Vice President of Business Development and Stacia Roum Executive Assistant and three part time employees, Wellington Ewen, our Chief Financial Officer and Annie Siegel and Elias Siegel, Administrative staff.

In the last two fiscal years, there have not been any research and/or development expenditures by us or our predecessor companies.

CytoDyn New Mexico previously licensed the technology out for development and had not been an operating business since 1998. We were only incorporated in May 2002 and were not an operaing entity until the acquisition of the license in October 2003. We expect to incur significant research and development expenses in the near future. However, our expenditures in the last two fiscal years have been for general and administrative purposes, legal fees, acquisition costs and patent protection.

Our principal executive offices are located at 227 E Palace Ave., Suite M , Santa Fe, New Mexico 87501; telephone: (505) 988-5520, facsimile: (800) 417-7252, and website address: www.cytodyn.com.

CytoDyn(R), Cytolin(R) and the graphic logo shown below are our registered trademarks.

[GRAPHIC OMITTED]

The Biotechnology Industry

As reported by the Biotechnology Industry Organization, there are more than 300 biotech drug products and vaccines currently in clinical trials targeting more than 200 diseases, including various cancers, Alzheimer's disease, heart disease, diabetes, multiple sclerosis, AIDS and arthritis. Biotechnology is responsible for hundreds of medical diagnostic tests that keep the blood supply safe from the AIDS virus and detect other conditions early enough to be successfully treated. As of Dec. 31, 2003, there were 1,473 biotechnology companies in the United States, of which 314 were publicly held. Market capitalization, the total value of publicly traded biotech companies (U.S.) at market prices, was $311 billion as of early April 2005. The biotechnology industry has mushroomed since 1992, with U.S. health-care biotech revenues increasing from $8 billion in 1992 to $39 billion in 2003. The U.S. biotechnology industry employed 198,300 people as of Dec. 31, 2003. Biotechnology is one of the most research-intensive industries in the world. The U.S. biotech industry spent $17.9 billion on research and development in 2003. The top five biotech companies spent an average of $101,200 per employee on R&D in 2002. The biotech industry is regulated by the U.S. Food and Drug Administration (FDA), the Environmental Protection Agency (EPA) and the

Department of Agriculture (USDA).

Background on HIV and AIDS

UNAIDS, the Joint United Nations Programme on HIV/AIDS, estimates that 70 million people are living with HIV/AIDS, reflecting a steady increase since 1999, especially in sub-Saharan Africa, as well as in Asia and the Pacific, Eastern Europe and Central Asia. According to the AIDS epidemic update, December 2003, in 2003, about 3 million people died from HIV/AIDS, and another 5 million contracted the disease. Another 4 million new infections are estimated to occur annually. No cure is currently known for HIV.

The human immune system is the body's primary defense against disease. It consists of a vast number of specialized cells and proteins that assist in detecting and destroying foreign organisms and eliminating disease cells. Normally, the body's immune system can distinguish between normal cells and those that appear to be foreign by recognizing proteins, or antigens. CD4 "watch dog" cells identify foreign cells, and the immune system launches an antibody response against the foreign organisms or cells.

HIV triggers a flaw in the human immune system that leads to its destruction. Patients with HIV proliferate CD8 "killer" cells, which kill off CD4 watch dog cells, whether healthy or not, leading to the loss of immune function. But for this flaw, HIV infection in humans might be similar in character to the infection in other primates, which can be infected with HIV without the destruction of their immune systems because their CD8 killer cells do not destroy their CD4 cells. The destruction of CD4 cells in humans leaves those persons susceptible to certain cancers and other infections that would normally not be fatal to a person with a normal number of CD4 cells. When AIDS first surfaced in the United States, no medicines were available to combat the underlying immune deficiency, and few treatments were available to combat the diseases that resulted. Since then, the United States Food and Drug Administration (FDA) has approved a number of drugs in two groups, both antivirals, for treating HIV infection. These groups are:

Drugs that interrupt an early stage of the virus making copies of itself; and
Drugs that treat HIV infection by interrupting virus replication at a later step in the virus' life cycle.

Frequently, these two groups of drugs are used in combinations for treatment. Treatment with these drugs, whether alone or in combination, has two primary drawbacks: the virus can mutate to avoid the attack, rendering the drugs ineffective, and the side effects can be severe. Some of the first group of drugs can cause a decrease of red or white blood cells, especially when taken in later stages of the disease. Some may also cause inflammation of the pancreas painful nerve damage, in addition to other severe reactions. The most common side effects in the second group of drugs include nausea, diarrhea, and other gastrointestinal symptoms. This second group can also interact with other drugs to produce severe side effects. Current research and development for HIV is focused on therapies to reduce the side effects of the antiviral drugs so as to enhance the efficacy of existing treatments and delay the progression of the HIV virus.

Potential drugs

Cytolin

Our president, Allen D. Allen, has been researching treatments for HIV and AIDS since 1987. He identified a family of monoclonal antibodies that protect the CD4 watchdog cells from the CD8 killer cells of the immune systems of people infected with HIV. He received three U.S. patents and additional foreign counterpart patents, now licensed to us, covering the use of these antibodies for treating patients with HIV. Our leading drug candidate, Cytolin, is based on a monoclonal antibody that protects CD4 cells from CD8 cells, thus preventing the weakening of the immune system.

In 1993, a small group of scientists and doctors treated six HIV-infected patients with Cytolin. Blood and skin tests of these patients demonstrated that the antibody was producing improvements in the immune function of each patient. In 1995, subacute and acute toxicology studies found Cytolin safe to administer to humans.

A relatively small number of physicians in the United States administered Cytolin to their HIV-infected patients over two years. As results from this initial use became available, other physicians obtained and administered Cytolin to their patients as well. Four of the doctors using Cytolin allowed CytoDyn's predecessor to send in an independent Institutional Review Board to inspect the medical records of 188 patients treated with Cytolin once or twice a month over 18 months. Data were recorded and summarized and formed part of the material presented to the FDA as an early indication of the safety and potential efficacy of Cytolin.

In 1996, the FDA approved a drug master file, designated BB-DMF#6836, for the manufacture of Cytolin at Vista Biologicals Corporation. CytoDyn of New Mexico and Vista Biologicals Corporation worked cooperatively to develop the drug master file. In accord with the practice of the FDA, the drug master file was issued to and became the property of the entity with the capacity to manufacture the drug, in this case Vista Biologicals Corporation. By contract with Vista Biologicals Corporation, CytoDyn of New Mexico had the exclusive right to reference the drug master file, that is, to authorize Vista BiologicalsCorporation to manufacture Cytolin in accordance with the terms of the drug master file.

In 1996, the FDA also designated our investigational new drug application for Cytolin as BB-IND #6845, and subsequently approved a clinical trial.

In 2002, Symbion Research International, a contract research organization, completed a Phase I a/b clinical trial of Cytolin. The trial was sponsored by Amerimmune, Inc., the previous licensee of CytoDyn of New Mexico but Symbion was never paid for its work. As a result, its work product became Symbion's. We entered into a buy-sell agreement with Symbion to purchase the Phase Ia study data in 2004. The Phase Ia study, conducted in 13 subjects suffering from HIV/AIDS, found Cytolin to be safe and well tolerated. The initial safety study affirmed the safety and tolerability of the drug in these dose groups, as well as preliminary efficacy in lowering the concentration of HIV by up to one log (measurement of efficacy) and increasing T-cell counts in the study's patient population with no severe adverse events reported. Some of the data were presented as an abstract and poster session, entitled "Phase I Study of Anti-LFA-1 Monoclonal Antibody (Cytolin(R)) in Adults with HIV Infection" at the 9th Conference on Retroviruses and Opportunistic Infections held in Seattle, Washington on February 24-28 2002 as well as the 16th International AIDS Conference held this August 2006 in Toronto, Canada.

We intend to develop Cytolin and other antibodies covered by the licensed patents as a treatment for HIV/AIDS in the U.S. and other countries. However, we

must raise sufficient and substantial capital in order to pursue these objectives.

Other Potential Drugs

On July 17, 2006 we acquired Advanced Influenza Technologies, Inc. (AITI) as a wholly owned subsidiary. AITI has licensed a portfolio of patents from the University of Massachusetts for the development of a family of plasmid-DNA products to protect human subjects against several strains of influenza (the flu). The University has until [1 year from the effective date of the contract--see and attach contract with Utek] to manufacture, successfully test, and deliver to AITI three "seeds" that can be used for the commercial manufacturing of plasmid-DNA products or, in the alternative, a single polyvalent product, depending upon what the FDA might require. In the event the University fails to make timely delivery of these seeds, AITI could then abandon the project with no further financial obligations or could continue with a different timeline.

CytoDyn is also negotiating with Kings College in London, England for the formulation of Formaxycin(TM) as a topical dermatological product to improve the appearance of human skin by eliminating dysplastic conditions.

Product Liability Insurance

The testing, marketing and sale of therapeutic products for use in humans entail an inherent risk of allegations of product liability, and there can be no assurance that product liability claims will not be asserted against us. We have not obtained product liability insurance, and there can be no assurance that we will be able to obtain insurance coverage in the future on acceptable terms or that any claims against us will not exceed the amount of such coverage.

Government Regulation

The estimated cost and length and stage of each process of FDA approval for Cytolinis outlined as followed:

Purchase of Phase I data: $362,000 ($275,000 outstanding $87,000 has been paid)
End of Phase 1/Pre Phase 11 FDA: 6 months; $100,000
Phase II(b) study $3,144,981
Cost to Investigators: $2,000,000
Manufacturing for Clinical Trials: 3-6 months; $ 450,000

Total time and cost estimated to get FDA approval for a Biologics Licensing Application (BLA)to sell Cytolin to certain HIV patients is approximately 29-42 months, at an estimated 6,056,981.

Regulatory Approval Process - Summary

On October 1, 2003, the FDA transferred certain product oversight responsibilities from the Center for Biologics Evaluation and Research (CBER) to the Center for Drug Evaluation and Research (CDER). The review and approval of Cytolin(R) is now under the jurisdiction of the Division of Monoclonal Antibodies in the CDER Office of Pharmaceutical Science: Office of Biotechnology Products.

Under current law, all new drugs and biologic products need clinical proof that they are safe and effective before they can be approved for marketing in the United States. The approval of Cytolin will be subject to submission of aBLA, submitted to CDER. The BLA is the vehicle through which CytoDyn will formally propose that the FDA approve Cytolin for sale in the United States. To obtain this authorization, CytoDyn will submit for review, as contained in the BLA, nonclinical (in vitro and animal) and clinical (human) test data and analyses, drug information, and descriptions of manufacturing procedures.

The BLA must provide sufficient information, data, and analyses to permit FDA reviewers to reach several key decisions, including:

whether Cytolin is safe and effective for its proposed use(s), and whether the benefits of Cytolin outweigh its risks; whether the proposed labeling for Cytolin is appropriate, and, if not, what the labeling should contain; and whether the methods used in manufacturing Cytolin and the controls used to maintain quality are adequate to preserve the identity, strength, quality and purity of Cytolin.

In order to initiate clinical testing of a new drug or therapeutic biologic product, an Investigational New Drug Application (IND) must be submitted to FDA. In most cases, the IND summarizes preclinical studies. The purpose of preclinical studies - animal pharmacology/toxicology testing - is to develop adequate data to support a decision that it is reasonably safe to proceed with human trials of the drug.

If an IND is considered `allowable' by FDA, the sponsor may begin clinical trials in humans. The standard procedure for clinical testing involves studies from Phase I to Phase III.

We have not yet submitted an IND for the DNA Plasmid influenza drugs as we will first need the University of Massachusetts to produce the three seeds needed for the commercial manufacturing process. This expected to take two years before we would apply to the FDA for human studies. In general the FDA regulatory process is the same for all therapeutics products.

Clinical Trials Process

Phase I

Phase 1 includes the initial introduction of an investigational new drug or biologic into humans. These studies are closely monitored and may be conducted in patients, but are usually conducted in a small number of healthy volunteer subjects. These studies are designed to determine the metabolic and pharmacologic actions of the investigational product in humans, the side effects associated with increasing doses, and, if possible, to gain early evidence on effectiveness. During Phase 1, sufficient information about the investigational product's pharmacokinetics and pharmacological effects are obtained to permit the design of well-controlled, scientifically valid, Phase 2 studies.

Phase II

Phase 2 includes the early controlled clinical studies conducted to obtain some preliminary data on the effectiveness of the drug for a particular indication or

indications in patients with the disease or condition. This phase of testing also helps determine the common short-term side effects and risks associated with the drug. Phase 2 studies are typically well-controlled, closely monitored, and conducted in a relatively small number of patients, usually involving several hundred people.

Phase III

Phase 3 studies are expanded controlled clinical studies. They are performed after preliminary evidence suggesting effectiveness of the drug has been obtained in Phase 2, and are intended to gather the additional information about effectiveness and safety that is needed to evaluate the overall benefit/risk relationship of the drug. Phase 3 studies also provide an adequate basis for extrapolating the results to the general population and transmitting that information in the physician labeling. Phase 3 studies usually include several hundred to several thousand people.

Clinical Development and Regulatory Approval

To date an allowable IND has been submitted for Cytolin and Cytolin has been studied in two Phase I controlled clinical studies (Phase Ia and Phase Ib/II(a)). Data has also been collected from four physicians who treated patients with Cytolin in an uncontrolled clinical setting from 1983 to 1995.

CytoDyn has retained the services of Hyman, Phelps & McNamara, a Washington D.C. law firm with an expertise in FDA regulatory affairs to assist the Company in its dealings with the FDA during a review by the FDA of court orders and public records related to CytoDyn's sponsorship of Cytolin, awarded first by the FDA and then by court order. The FDA has indicated a willingness to abide by applicable court orders despite false and misleading information received from a third party (see Legal Proceedings). Should the FDA not abide by the orders of courts of competent jurisdiction, it would delay or prevent CytoDyn from offering a preliminary version of Cytolin for use as salvage therapy by HIV patients failing Highly Active Antiretroviral Therapy (HAART). This could have a negative effect on the Company's manufacturing costs, time to market in the United States, and in other ways that cannot be predicted or estimated. However, while the Company can offer no guarantee as to what the FDA may do, the Company believes that the FDA will abide by law and the public interest.

Once adequate clinical testing of Cytolin is complete, the BLA must be submitted to FDA containing full reports of the studies such that CDER can evaluate the data. Data from the controlled clinical trials are especially important because they provide the only basis, under law, for demonstrating safety and effectiveness. The clinical trials answer the questions: "Does this drug work for the proposed use?" and "Is the drug safe?" From analyses of the data, CDER reviewers assess the benefit-to-risk relationship and based on CDER's assessment, the BLA for Cytolin will either be considered approvable, approvable with minor changes, or not approvable. Once considered approvable, the sale and marketing of Cytolin may legally proceed in the United States.

In order to obtain approval for the sale and marketing of Cytolin in the United States, the clinical development strategy described below has been devised.

1. Safety and efficacy data have been assembled into an abbreviated clinical study report for the Phase Ia study and a clinical report synopsis for the Phase Ib/II study. The data demonstrate that in these studies Cytolin was safe and well tolerated in HIV positive individuals. In addition, the Phase

Ib/II(a) study provided some initial evidence of efficacy for maintaining a reduction in viral load and a correlated increase in CD4+ T-lymphocytes.

2. A Pre-Phase II(b) meeting will be requested with CDER. CDER encourages these meetings before conducting large-scale controlled clinical trials in order to obtain CDER advice about the design of the study plan and to ensure that planned studies will be acceptable. At this meeting safety and efficacy data from the two completed studies (Phase Ia and Phase Ib/II) will be presented to CDER. In addition, the clinical study design for the planned study (Phase II(b)) will also be presented. In addition to obtaining FDA agreement on study design, the goal of this meeting will also be to discuss the possibility for considering the Phase II(b) study suitable for granting treatment INDs to requesting physicians for patients who have failed Highly Active Antiretroviral Therapy (HAART).

3. Following FDA review, discussion, and feedback, the Phase II(b) study will be conducted. We have entered into a preliminary agreement to have the study conducted by Dr. Jacob Lalezari, a leading HIV research physician in San Francisco, CA. As currently drafted, this is a double-blind, placebo-controlled, multi-center, 2-part study of Cytolin to be conducted in approximately 200 subjects. Part 1 is designed to determine dose-regimen and Part 2 is designed to study the safety and efficacy of long-term administration of Cytolin of the most efficacious dose regimen as determined from Part 1. The target population for the study is HIV seropositive adults who are receiving a standard course of three- or four-drug HAART (combination anitviral therapy) after failing their first HAART regimen. Duration of treatment in the study will be approximately 48 weeks.

4. Data for this study will be compiled into a clinical study report and submitted to the FDA. Endpoints will include, but are not limited to:

- Proportion of responders after 12 weeks (A responder will be define by a = 0.5 log reduction in HIV-1 viral load or reduction in viral load below the level of detection.);
- Safety;
- Change from baseline in CD4+ T-cell count after 12 and 24 weeks (Part 1 and Part 2, respectively);
- Pharmacokinetics (percent Cytolin binding); and
- Time to treatment with additional HAART drugs or other HIV therapies.

5. An End-of-Phase II meeting will be requested with the FDA to present safety and efficacy data from the Phase II study, as well as to summarize safety and efficacy across all studies.

Cytolin is a good candidate for obtaining regulatory approval after Phase II, provided the safety and efficacy data are compelling. FDA has established that a sustained reduction (e.g., 24 weeks) in HIV-1 viral load is highly predictive of meaningful clinical benefit and is a sufficient surrogate endpoint for obtaining approval for drugs intended to treat HIV. The Phase II study has been designed to evaluate safety and efficacy in a subject population that has very few treatment options and will evaluate efficacy in maintaining a reduced HIV-1 viral load. A strong argument will be presented to FDA to consider the Phase II data sufficient for the basis of providing treatment INDs to requesting physicians.

6. Depending on the meeting outcome, development will continue with the initiation of aPhase III clinical study.

We may encounter significant difficulties or costs in our efforts to obtain FDA approvals, which could delay or preclude us from marketing any potential drugs that we may develop.

Noncompliance with applicable requirements can result in criminal prosecution and fines, recall or seizure of potential drugs, total or partial suspension of production, refusal of the government to approve Biological License Applications, BLAs, Product License Applications, PLAs, New Drug Applications, NDAs, or refusal to allow us to enter into supply contracts. The FDA also has the authority to revoke product licenses and establishment licenses previously granted.

Sales of biological and pharmaceutical potential products outside the United States are subject to foreign regulatory requirements that vary widely from country to country. Whether or not FDA approval has been obtained, approval of a product by a comparable regulatory authority of a foreign country must generally be obtained prior to the commencement of marketing in that country.

Our contract manufacturers will also subject to regulation by the Occupational Safety and Health Administration (OSHA) and the Environmental Protection Agency (PA) and to regulation under the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other regulatory statutes, and may in the future be subject to other federal, state or local regulations.

We signed a consulting contract with Symbion Research International Inc, the contract research organization that prepared the Phase Ia/b clinical trials of Cytolin. We have also entered into a buy-sell agreement with Symbion to purchase the Phase Ia/b clinical data and the Phase II study protocol. We will be attempting to obtain permission to advance to a Phase II study on Cytolin.

We will not know for sure if certain studies will be required and what the total costs of such studies until we have a meeting with the FDA which we expect to take place within the next six months. We estimate that the cost for the "End of Phase I/Pre- Phase II" meeting with the FDA will be $50,000 to $100,000. We also estimate costs for the Phase II Study will be $ $3,144,981 for the Contract Research Organization. We expect the Phase II Study to take 29 to 42 months to complete at a cost estimated to be to $6,056,981 Included in these estimated costs, we believe themanufacturing and supply costs to be $450,000Substantially more capital will need to be obtained to get FDA approval for Cytolin's general use in the U.S. and to conduct further studies that the FDA may require.

Plasmid DNA Products for Preventing Influenza (the flu. No IND has yet been submitted to the FDA. Once the University of Massachusetts has developed the seeds for the commercial manufacturing process, we can then estimate the costs to go through the FDA regulatory approval process. We believe we have earmarked enough cash to do the manufacturing which should be about $250,000.

Patents

We have licensed the following patents from Mr. Allen D. Allen, the Inventor and Registered OwnerU.S. Patent Nos. 5424066 5651970 and 6534057, and foreign counterpart patents.

We have also licensed the following foreign patents: Canada, Australia, United Kingdom, Germany, Switzerland, France, Italy, Netherlands, Portugal, Spain and Sweden. These patents are the equivalent of the U.S. Patent No. 5424066. There is also a European patent pending which would be the equivalent of U.S. Patents

No. 5651970.

The patents are registered to Allen D. Allen, the inventor and are licensed exclusively to us until they expire, the first of which is to occur in 2013. We will develop, market and sell the technology contained in the patents in accordance with the license agreement (See Exhibit 10.6 for Patent License Agreement).

CytoDyn owns the registered trademarks, CytoDyn and Cytolin, and a related trademark of our graphic logo.

Our wholly owned subsidiary AITI has a non-exclusive license to the following patents from the University of Massachusetts

Serial Number	Filing Date	Issue Date	Patent #	Country
08/009,833	1/27/1993	7/1/1997	5,643,578	USA
08/187,879	1/27/1994	1/11/2005	6,841,381	USA
10/763,049	1/22/2004	NA	pending	USA
PCT/US93/02394	3/17/1993	NA	NA	PCT
PCT/US95/00997	1/25/1995	NA	NA	PCT
93907536	3/17/1993	NA	NA	EP
01202355.2	6/18/2001	NA	NA	EP
2,132,836	9/23/1994	NA	NA	CA
2,181,832	1/25/1995	NA	NA	CA
07-520142	1/25/1995	NA	NA	JP
2003-28160	7/29/2003	NA	NA	JP
JP7507203				
JP9508622T				
JP2004099603				
AU3150295				

Our wholly owned subsidiary AITI has an exclusive license to the following patents(s) exclusively from the University of Massachusetts

University invention disclosure UMMC04-96 entitled "Influenza Nucleic Acids, Polypeptides, and Uses Thereof" as embodied in Patent Applications 60/655,979; 11,362,617; and PCT/US2006/006701 and naming Shan Lu and Shixia Wang as inventors.

Competition

The pharmaceutical industry is an expanding and rapidly changing industry characterized by intense competition. CytoDyn will compete with other more established biotechnology companies with greater financial resources than us.

Our potential competitors include entities that develop and produce therapeutic agents for treatment of human and animal disease. These include numerous public and private academic and research organizations and pharmaceutical and biotechnology companies pursuing production of, among other things, biologics from cell cultures, genetically engineered drugs and natural and chemically synthesized drugs. Almost all of these potential competitors have substantially greater capital resources, research and development capabilities, manufacturing and marketing resources and experience than CytoDyn. Our competitors may succeed in developing potential drugs or processes that are more effective or less costly than any that may be developed by CytoDyn, or that gain regulatory approval prior to our potential drugs. Worldwide, there are many antiviral drugs for treating HIV and AIDS. In seeking to manufacture, distribute and market the various potential drugs we intend to develop, we face competition from established pharmaceutical companies. All of our potential competitors in this field have considerably greater financial and personnel resources than we possess. Also, based on the premise that HIV patients lose their CD4 cells because of the way some white blood cells stick together in people infected with the virus, Johns Hopkins Medical School owns patents on specific antibodies which were licensed or acquired by Genentech Corporation and are believed to prevent the clumping of white blood cells, which is known as syncytia. It is possible that these antibodies may be licensed by Genentech and marketed in competition with Cytolin. CytoDyn also expects that the number of its competitors and potential competitors will increase as more potential drugs receive commercial marketing approvals from the FDA or analogous foreign regulatory agencies. Any of these competitors may be more successful than CytoDyn in manufacturing, marketing and distributing its potential drugs.

There are many other vaccine related products in development by the major pharmaceutical companies. Although AITI has the patents for using its DNA-plasmidsto protect human subjects from influenza [the flu], other companies may produce a superior product.

There are many other products on the market and in development than can compete with Formaxycin. Since Formaxycin has not yet been formulated its specific product advantages cannot be known at this time. Under the best of circumstances the company anticipates there will be several other products competing with Formaxycin.

There can be no assurances that CytoDyn will be able to successfully commercialize any of the products in its pipeline.

Seasonality

Our business is not materially affected by seasonal factors.

Employees

We have three full time employees, two part-time employees, and several consultants engaged in management and product development. CytoDyn is severely understaffed and will expand its employee force if we completee further financings estimated to be $5 to $15 million. There can be no assurance we will be able to locate or secure suit able employees upon acceptable terms in the

future. These have expired and have not been renewed.

RISK FACTORS

An investment in our shares is very risky. You should only invest if you can afford to lose your entire investment. Before you invest, carefully consider the risks we discuss in this section, as well as the information elsewhere in these materials. You should also consider the information we incorporate by reference, and information that we file with the Securities and Exchange Commission from time to time.

In addition to other information included in this report, the following factors should be considered in evaluating our business and future prospects:

Risks Related to Our Financial Condition

Our Accountant Has Expressed a Substantial Doubt that We Can Continue As a Going Concern. If We Do Not Continue As a Going Concern, Investors Could Lose Their Entire Investment.

We have accumulated losses since our inception, and our independent accountant has expressed that there is a substantial doubt that we may continue as a going concern. If we do not continue as a going concern, there will be no way for investors to recoup their investments.

We Are a Business With No Revenues to Date and Cannot Commence Clinical Trials Unless We Can Overcome the Many Obstacles We Face.

We are a development-stage company with no prior business operations and no revenues. We are presently engaged in the early stage development of certain potential drugs. Unless we are able to secure adequate funding, we may not be able to successfully develop and market our potential drugs and our business will most likely fail. Because of our limited operating history, you may not have adequate information on which you can base an evaluation of our business and prospects. To date, our efforts have been allocated primarily to the following: aggressively patenting our technology; organizational activities; developing a business plan; obtaining interim funding; acquiring technology and working toward the ultimate successful development of our potential drugs. In order to establish ourselves in the bio pharmaceutical market, we are dependent upon funding by sales of our securities and the successful development and marketing of our potential drugs. As a research and development company, we face increased risks, uncertainties, difficulties and expenses such that an investment in our common stock may be worthless if our business fails. We have a history of losses and a large accumulated deficit and we expect future losses that may cause our stock price to lose its value.

For the fiscal years ended May 31, 2005 and May 31, 2006, we incurred net losses of $777,083and $1,489,700, respectively. The losses since the company's development stage (October 23, 2003 through May 31, 2006) were $2,604,827. CytoDyn of New Mexico incurred approximately $1.3 in net losses before it assigned its license to us. We expect to lose more money as we spend additional capital to develop and market our technologies and establish our infrastructure and organization to support anticipated operations. We cannot be certain whether we will ever earn a significant amount of revenues or profit, or, if we do, that we will be able to continue earning such revenues or profit. Also, the current economic weakness may limit our ability to develop and ultimately market our technologies. Any of these factors could cause our stock price to decline and result in you losing a portion or all of your investment.

Risks Related to Our Business

Our Inability to Retain and Attract Key Personnel Could Cause Our Business to Fail.

We believe that our future success will depend on the abilities and continued service of certain of our senior management and executive officers, particularly our president and CEO and those persons involved in the research and development of our potential drugs. If we are unable to retain the services of these persons, or if we are unable to attract additional qualified employees, researchers and consultants, we may be unable to successfully finalize and eventually market our drugs being developed, which would have a material adverse effect on our business.

Our Research and Development Efforts May Note Result In Commercially Viable Potential Drugs Which Could Result in a Loss of Investment.

Our technologies are in the development stage. Further research and development efforts will be required to develop these technologies to the point where they can be incorporated into commercially viable or salable potential drugs. We have set forth in this report our proposed research and development program as it is currently conceived. We cannot assure you, however, that this program will be accomplished in the order or in the time frame set forth. We reserve the right to modify the research and development program. We may not succeed in developing commercially viable potential drugs from our technologies. If not, our ability to generate revenues from our technologies will be severely limited. This would result in the loss of all or part of your investment.

Our Potential Drugs Have Not Yet Been Extensively Tested On Humans, and Their Efficacy Is Not Yet Known. If We Cannot Develop Effective Potential Drugs, Our Business Will Fail.

There are numerous legal, scientific and regulatory risks that may prevent us from carrying out our project to develop the drugs in our pipeline. Investment in CytoDyn must be considered highly speculative because, among other reasons, only limited testing on humans has been conducted. It is possible that our proposed therapies will not be effective for treating their indications disease or that they will have adverse side effects on human subjects which will prohibit or undermine their intended use. Consequently, investment in our securities involves a high degree of risk and only those persons of adequate financial means, who have no need for liquidity with respect to the investment, and can bear the risk of losing all or part of the investment, are suitable for such investment.

In Order to Create Some of Our Potential Drugs, We Will Need to License or Purchase Clones. If We Are Unable to Do So, We May Not Be Able to Continue Development of Some of Our Potential Drugs.

Some of the patents licensed by us cover the use of certain antibodies to treat HIV disease. Antibodies are produced in a process similar to that of making wine. A seed or "clone" is planted to grow a cellbank. The cell bank is then used to grow a crop of cells. Cells are harvested from the cell bank and then fermented or otherwise processed to make raw antibodies. Finally, the raw antibodies are purified and vialed using an FDA approved method. CytoDyn does not currently own or license the clones used to produce antibodies. We have not yet completed negotiations with the owners of the needed clones, and there can be no assurance that we will be able to obtain such an agreement. In the event

we are unable to obtain a clone license, our use of the antibody will be restricted to research only. In order to protect these potential drugs, we must be able to license the clones, and no such license has yet been negotiated.

We Are Dependent Upon Patents CytoDyn and AITI Have Licensed The Failure to Maintain These Licenses May Cause Our Business to Fail.

We currently have the right to use patent and proprietary rights which are material to the development of our HIV treatments, by assignment of a license from Allen D. Allen, the owner of the patents. The license requires us to defend the licensed patents from infringement. If we were to fail to defend or maintain patents or other protections of the licensed patents and proprietary technology, it may have a materially adverse effect on our ability to develop our potential drugs.

AITI currently has the right to develop and market the plasmid-DNA technology developed at the University of Massachusetts to protect human subjects from the flu.

If we fail to make progress payments or to defend our rights, it may have a materially adverse effect on our ability to develop our potential drugs.

We May Not Have the Opportunity to Enter Into Strategic Partnerships For the Commercialization of Our Technologies Which Could Have a Severe Negative Impact on Our Ability to Market Our Potential Drugs.

We intend to enter into strategic partnerships or other relationships with established biomedical, pharmaceutical and biopharmaceutical companies to obtain the necessary regulatory approvals and to undertake the manufacturing and marketing efforts required for commercializing our potential drugs. However, we do not have commitments at this time from any potential partners. If we are unable to enter into any new partnerships, then we may be unable to commence the commercialization of our potential drugs.

A Market For Our Potential Drugs May Not Develop, Causing a Failure of Our Business.

Our future success will depend, in part, on the market acceptance, and the timing of such acceptance, of new potential drugs or technologies that may be developed or acquired. To achieve market acceptance, we must make substantial marketing efforts and spend significant funds to inform potential customers and the public of the perceived benefits of these potential drugs. We currently have limited evidence on which to evaluate the market reaction to potential drugs that may be developed, and there can be no assurance that any potential drugs will obtain market acceptance and fill the market need that is perceived to exist.

Our Business Depends on Our Ability to Protect Our Proprietary Technology. If We Cannot Protect It, Our Business May Fail.

We have entered, and will continue to enter, into confidentiality agreements with our employees, consultants, advisors and collaborators. Corinne Allen our Vice President of Business Development and Wellington Ewen our Chief Financial Officer, have entered into Proprietary Information and Inventions Agreements in order to protect our proprietary information. Allen D. Allen as the Inventor of the technology is bound under the Patent License Agreement licensed to CytoDyn.

However, these parties may not honor these agreements and we may not be able to successfully protect our rights to unpatented trade secrets and know-how. Others

may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets and know-how. Although we encourage and expect all of our employees to abide by any confidentiality agreement with a prior employer, competing companies may allege trade secret violations and similar claims against us. We may collaborate with universities and governmental research organizations which, as a result, may acquire part of the rights to any inventions or technical information derived from collaboration with them. To facilitate development and commercialization of a proprietary technology base, we may need to obtain licenses to patents or other proprietary rights from other parties. Obtaining and maintaining such licenses may require the payment of substantial amounts. In addition, if we are unable to obtain these types of licenses, our product development and commercialization efforts may be delayed or precluded. We may incur substantial costs and be required to expend substantial resources in asserting or protecting our intellectual property rights, or in defending suits against us related to intellectual property rights. Disputes regarding intellectual property rights could substantially delay product development or commercialization activities. Disputes regarding intellectual property rights might include state, federal or foreign court litigation as well as patent interference, patent reexamination, patent reissue, or trademark opposition proceedings in the United States Patent and Trademark Office. Opposition or revocation proceedings could be instituted in a foreign patent office. An adverse decision in any proceeding regarding intellectual property rights could result in the loss or limitation of our rights to a patent, an invention or trademark.

We Will Engage Contract Manufacturers to Produce Our Potential Drugs, Including Our Potential HIV Drugs.

Our dependence on third party manufacturers creates a risk that the manufacturer will become unable to perform work for us, or perform it properly, or the manufacturer may go out of business. This would create a substantial delay in the development of our products, which would have a materially adverse effect on our business.

As a Producer of Potential Drugs, We May Be Exposed to Product Liability and Recall Risks for Which Insurance Coverage Is Expensive, Limited and Potentially Inadequate.

We produce potential drugs, which, if approved for use by humans, subjects us to risks of product liability claims or product recalls, particularly in the event of false positive or false negative reports. The drug platform we are developing is also subject to product liability claims with respect to safety of the product, especially with regard to potential side effects. At the moment we have no product liability insurance, but even if we are successful in obtaining insurance for our potential drugs, a product recall or a successful product liability claim or claims that exceed our insurance coverage could have a material adverse effect on us. Product liability insurance is expensive. In the future we may not be able to obtain coverage on acceptable terms, if at all. Moreover, our insurance coverage may not adequately protect us from liability that we incur in connection with clinical trials or sales of our potential drugs.

Our Management Has Substantial Voting Control Over All Matters.

As of May 31, 2006 Allen D. Allen our president holds 2,118,515 and Corinne Allen, our Secretary and Vice President, holds 1,064,071of our 11,225,264 shares of common stock outstanding. This gives them significant influence and 34% voting control over all matters submitted to a vote of the shareholders.

Technological Changes May Render Our Potential Drugs Obsolete.

The biopharmaceutical industry is subject to rapid and significant technological change, and our ability to compete is dependent in large part on its ability continually to enhance and improve its potential drugs and technologies. In order to do so, we must effectively utilize and expand its research and development capabilities, and, once developed, expeditiously convert new technology into potential drugs and processes which can be commercialized. Our competitors may succeed in developing technologies, potential drugs and processes that render our processes and potential drugs obsolete. Certain companies have filed applications for or have been issued patents and may obtain additional patents and proprietary rights relating to potential drugs or processes competitive with or otherwise related to those of CytoDyn. The scope and viability of these patents, the extent to which we may be required to obtain licenses under these patents or under other proprietary rights and the cost and availability of licenses are unknown, but these factors may limit our ability to market potential drugs.

It Is Uncertain If Healthcare Facilities, Providers and Insurance Companies Will Approve Benefits or Reimbursement for Their Members for Our Potential Drugs, Thus Rendering Them More Expensive and More Difficult to Market.

The industry is subject to changing political, economic and regulatory influences that may affect the procurement practices and operations of healthcare industry participants. During the past several years, state and federal government regulation of reimbursement rates and capital expenditures in the United States has increased. Lawmakers continue to propose programs to reform the United States healthcare system, which may contain programs to increase governmental involvement in healthcare, lower Medicare and Medicaid reimbursement rates or otherwise change the operating environment in the healthcare industry. Healthcare industry participants may react to these proposals by curtailing or deferring use of new treatments for disease, including treatments utilizing the biologics that CytoDyn is developing.

We Need to Raise at least $2,000,000 to $8,000,000 within the next 12 month s or We May Not Be Able to Continue Our Business.

There is sufficient cash on hand to operate the business through the end of the calendar year. However, additional funds will need to be acquired to operate beyond the calendar year.

If CytoDyn has to fund its own clinical trials we must raise $2,000,000 to $8,000,000 through capitol, borrowing, or out-licensing.

If a foreign or domestic governmental or other public entity funds our clinical trials, of Cytolin(R) ,the design and/or execution may be less than optimal and the company could wind up having to commit to manufacturing costs in the U.S. and overseas which could adversely effect the cost of doing business.

Risks Related to Legal Proceedings

Management's Responsibility Is to Protect Our Patents, Trademarks and Technology. This Includes Legal Expenses to Oppose Attempts to Steal, Convert or Misappropriate Our Property.

We have been targeted in the past and have had to spend significant legal fees to recover our property. Please see disclosures under "Legal Proceedings" below. If we are unsuccessful in opposing efforts to steal, convert or misappropriate

our property, this could have a materially adverse effect on our business.

Risks Related to Regulatory Approvals and Clearances

The Time Needed to Obtain Regulatory Approvals and Respond to Changes In Regulatory Requirements Could Cause Our Business to Fail.

On October 1, 2003, the Food and Drug Administration (FDA) transferred certain product oversight responsibilities from the Center for Biologics Evaluation and Research (CBER) to the Center for Drug Evaluation and Research (CDER). The review and approval of Cytolin(R) is now under the jurisdiction of the Division of Monoclonal Antibodies in the CDER Office of Pharmaceutical Science: Office of Biotechnology Products.

Under current law, all new drugs and biologic products need clinical proof that they are safe and effective before they can be approved for marketing in the United States. The approval of our drugs will be subject to submission of a Licensing Application , submitted to the FDA. A license application is the vehicle through which CytoDyn will formally propose that the FDA approve our products for sale in the United States. To obtain this authorization, CytoDyn will submit for review, as contained in theapplication, nonclinical (in vitro and animal) and clinical (human) test data and analyses, drug information, and descriptions of manufacturing procedures. The submission of a licensing application to the FDA does not guarantee that an approval or clearance to market a product will be received.

This process could be costly and lengthy. There may be delays that increases our costs to develop new potential drugs as well as the risk that we will not succeed in introducing or selling them in the United States or other countries.

Newly promulgated or changed regulations could also require us to undergo additional trials or procedures, or could make it impractical or impossible for us to market our potential drugs for certain uses, in certain markets, or at all.

Failure to comply with FDA or similar international regulatory bodies or other requirements may require us to suspend production of our potential drugs which could result in further losses or inability to produce revenues.

Risks Related to Our Common Stock

Our stock is thinly traded and highly volatile which may make it difficult or impossible for investors to sell their shares.Our common stock is a "penny stock" as defined in the Exchange Act, which are traded in the over-the-counter market on the over-the-counter bulletin board. As a result, investors may find it more difficult to dispose of or obtain accurate quotations as to the price of the shares of the common stock being registered hereby. In addition, the "penny stock" rules adopted by the Securities Exchange Commission under the Exchange Act subject the sale of the shares of our common stock to certain regulations which impose sales practice requirements on broker/dealers. For example, brokers/dealers selling such securities must, prior to effecting the transaction, provide their customers with a document that discloses the risks of investing in such securities. Included in these documents are the following:

- the bid and offer price quotes in and for the "penny stock", and the number of shares to which the quoted prices apply;
- the brokerage firm's compensation for the trade;

- the compensation received by the brokerage firm's sales person for the trade;
- the brokerage firm must send the investor a monthly account statement that gives an estimate of the value of each "penny stock" in the investor's account;
- and a written statement of the investor's financial situation and investment goals.

Legal remedies, which may be available to you as an investor in "penny stocks", are as follows:

- if "penny stock" is sold to you in violation of your rights listed above, or other federal or state securities laws, you may be able to cancel your purchase and get your money back;
- if the stocks are sold in a fraudulent manner, you may be able to sue the persons and firms that committed the fraud for damages;
- and if you have signed an arbitration agreement, however, you may have to pursue your claim through arbitration.

If the person purchasing the securities is someone other than an accredited investor or an established customer of the broker/dealer, the broker/dealer must also approve the potential customer's account by obtaining information concerning the customer's financial situation, investment experience and investment objectives. The broker/dealer must also make a determination whether the transaction is suitable for the customer and whether the customer has sufficient knowledge and experience in financial matters to be reasonably expected to be capable of evaluating the risk of transactions in such securities. Accordingly, the Securities and Exchange Commission's rules may limit the number of potential purchasers of the shares of our common stock. Resale restrictions on transferring "penny stocks" are sometimes imposed by some states, which may make transaction in our stock more difficult and may reduce the value of the investment. Various state securities laws pose restrictions on transferring "penny stocks" and as a result, investors in our common stock may have the ability to sell their shares of our common stock impaired.

Item 2. Description of Property

Our principal offices are located at 227 E. Palace Avenue, Suite M, Santa Fe, New Mexico 87501. We lease this 750 square foot office space on a annual basis with ability to renew for $895 per month.

Item 3. Legal Proceedings

All litigation reflects the efforts of Rex H. Lewis, the previous CEO of our previous licensee Amerimmune, Inc., to take the property of Amerimmune, Inc., CytoDyn, Inc. and our CRO, Symbion Research International, Inc., for his privately held Nevada corporation, Maya, LLC. Although these efforts have been multifaceted and interstate in scope, all litigation reflects this one dispute or artifice.

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.

In connection with that settlement, Mr. Lewis and Maya LLC were awarded by the Los Angeles Superior Court attorneys' fees in the amount of approximately $150,000. We have appealed the Court's order. The matter has not yet been briefed. Management believes we have a strong basis to appeal. This judgement has been accrued the accompanying financial statements.

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"), intervened. Since CytoDyn expects to make a new cell bank in any event, this action is opposed because it is one part of an interstate scheme or artifice to convert our property. The Company's Response:

The Company has a superior right to the Cell-Bank, and the Company intends to litigate the matter vigorously..

Expected Outcome:

We cannot express judgment regarding the outcome of the case or the probable ultimate liability, if any, to be incurred by the Company. However, 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. Because of uncertain consequences resulting from the actions of these rogue Amerimmune Inc. employees, Symbion Research International is acting to remedy the situation. The

former employees have filed two U.S. patent applications and several foreign patent applications based on a derivative international patent application. Symbion Research International intends 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 of services performed. Symbion prevailed in that suit and the Ventura Court awarded title to all data and additional intellectuial property developed by Symbion during its relationship with Amerimmune to Symbion. This additional intellectual property is the subject matter of the patent applications filed by the former employees of ex-licensee Amerimmune.

Maya LLC v. CytoDyn, et al Superior Court of Los Angeles Van Nuys Case #EC041590

Maya LLC filed an action in Van Nuys, California alleging a smorgasbord of complaints against CytoDyn and two of its officers, some of which have been dismissed on demurrer without leave to amend, some of which can be amended, and some of which have been sustained but with a request from Maya's attorney that CytoDyn's attorneys agree to an amended complaint. Management believes that these events reflect a retaliatory and frivolous action on the part of Maya. Although the outcome of litigation is uncertain, CytoDyn's in-house counsel believes an outcome unfavorable to CytoDyn is highly unlikely.

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

None.

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

Market Information.

The principal market for trading our common stock is the NASD OTC Bulletin Board under the symbol CYDY.OB. As of August 29, 2006 we had approximately 151 holders of our common stock, plus what is held in street name which we cannot determine.

Dividends.

Holders of our common stock are entitled to receive dividends as may be declared from time to time by our Board of Directors. We have not paid any cash dividends on our common stock and do not anticipate paying any in the foreseeable future. Management's current policy is to retain earnings, if any, for use in CytoDyn's operations and for expansion of the business.

Price Range of Outstanding Common Stock

Year Ended May 31, 2006		

	High	Low
First Quarter Ended August 31, 2005	N/A	N/A
Second Quarter Ended November 30, 2005	3.25	.50
Third Quarter Ended February 28, 2006	2.45	1.35
Fourth Quarter Ended May 31, 2006	3.04	1.80

Securities Authorized for Issuance under Equity Compensation Plans.

The following table sets forth, as of May 31, 2006, all compensation plans under which equity securities of CytoDyn, Inc. are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a (c)
Equity compensation plans approved by security holders	668,122 (2)	2.30	781,878
Equity compensation plans not approved by security holders	150,000*(1)	$1.00 per share	-0-
Total	818,122	$3.30	781,878

(1) This plan is an individual plan pursuant to an employment agreement between us and Wellington A. Ewen. The plan states he is eligible to receive an option for 50,000 shares that will become exercisable at the end of his first year of employment, exercisable at $0.50 a share, additional options for 50,000 shares that will become exercisable at the end of his second year of employment, exercisable at $1.00 a share, and options for 50,000 shares that will become exercisable at the end of his third year of employment, exercisable at $1.50 a share.

(2)The shareholders approved a Stock Option Plan by vote on January 31, 2006 approving 1,600,000 incentive and/or nonqualified stock options to be available for issuance by Board of Directors. On March 20, 2006 the board of directors granted 668,122 stock options to employees and consultants..

Recent Sales of Unregistered Securities

During the last two quarters we raised $509,500 through convertible promissory notes at a conversion price of $1.25 with warrants attached and exercisable at $2.50 per share. $437,500 of the notes were converted into 350,000 shares. 57,600 shares were issued after May 31, 2006 and converted from the remaining convertible notes outstanding of $72,000. To date, none of the warrants have been exercised.

Purchases of Equity Securities

None.

Item 6. Management's Discussion and Analysis or Plan of Operation

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Overview

We incorporated as Rexray Corporation in Colorado in May 2002. We were originally a blank check company created to target companies for merger or acquisition. We issued to our founder, James B. Wiegand 800,000 shares of our common stock in exchange for services valued at $8,000, and thereafter $3,400 for administrative purposes through a private placement equity offering of 340,000 shares in 2002.

In October 2003, we entered into an acquisition agreement with CytoDyn of New Mexico, Inc., the purpose of which was to acquire the license to three patents and foreign counterpart patents. These patents cover the use of monoclonal antibodies to treat patients with Human Immunodeficiency Virus (HIV) by protecting crucial cells of the body's immune system that are otherwise killed by the disease, permitting the immune system to inhibit the disease and protect against the collateral illnesses that commonly accompany the disease.

We are a development stage company. We have not commenced any significant product commercialization and, until we do, we will not generate any significant product revenues. Most of the efforts and resources commenced by the predecessor New Mexico company, (CytoDyn of New Mexico, Inc, incorporated in New Mexico in June of 1994) have been directed to research and development of Cytolin and related technologies. Since inception of the company and the accumulated losses of the predecessor CytoDyn of New Mexico, we have incurred total research and development expenses of $4.4, million. As a result of these research and development costs, we have combined, since inception, incurred operating losses generating an accumulated deficit of approximately $4,356,739 as of May 31, 2006 our fiscal year end. Since October 2003, when we entered into the acquisition agreement with Rexray Corporation through May 31, 2006, our accumulated net losses had been approximately $2,754,827. This company has had no research and development expenses during the last two fiscal years, as we have been structuring this new company, focusing on compliance, financing , acquisition of certain technologies and structure of management. Our research and development expenses will be incurred once we meet with the FDA for approval of a Phase II trial of Cytolin and/or a Phase 1 trial of DNA plasmids. We expect to continue to incur operating losses and we expect the accumulated deficit to increase

until we are able to market a product and have sales sufficient to support our operations, or until we can generate income from out-licensing products with positive human experience in clinical trials.

The Acquisition Agreement with CytoDyn of New Mexico. Under the October 28, 2003 acquisition agreement with CytoDyn of New Mexico, we:

Effected a one-for-two reverse split of our common stock, Issued to CytoDyn of New Mexico 5,362,640 post-split shares, and Amended our articles of incorporation to change our name to CytoDyn, Inc. Assumed $161,578 in liabilities related to assigned assets

As consideration for the issuance of our shares to it, CytoDyn of New Mexico:

Assigned a Patent License Agreement dated July 1, 1994 between CytoDyn of New Mexico and Allen D. Allen, covering United States patent numbers 5424066, 5651970, and 6534057, and related foreign patents and patents pending, for a method of treating HIV disease with the use of monoclonal antibodies, Assigned its trademarks, CytoDyn and Cytolin, and related trademark symbol, and Paid $10,000 in cash.

We accounted for the acquisition as a recapitalization of CytoDyn of New Mexico, with Rexray Corporation as the legal surviving entity. For accounting purposes, the acquisition has been treated as a recapitalization of CytoDyn of New Mexico, with Rexray as the legal surviving entity. Since Rexray had minimal assets and no operations, the recapitalization has been accounted for as the sale of 890,000 shares of CytoDyn of New Mexico common stock for the net assets of Rexray. Therefore, the historical financial information prior to the date of the reverse business acquisition is the financial information of CytoDyn of New Mexico.

History of CytoDyn of New Mexico, Inc.

CytoDyn of New Mexico has been, since its incorporation in New Mexico in 1994, a research and development company focused on developing a treatment for diseases associated with HIV/AIDS. It has never had operating revenues and has never been profitable. It is in the process of dissolving and has distributed the 5,362,640 shares of common stock that it received from us in the acquisition to its shareholders, pro rata. The corporation is in the process of being liquidated.

Summary of Critical Accounting Policies

Organization and Basis of Presentation

CytoDyn, Inc. (the "Company") was incorporated under the laws of Colorado on May 2, 2002 under the name Rexray Corporation ("Rexray"). The Company entered the development stage effective October 28, 2003 and follows Statements of Financial Accounting Standards ("SFAS") No. 7 "Accounting and Reporting by Development Stage Enterprises".

The Company plans to develop therapeutic agents for use against the disease associated with Human Immunodeficiency Virus ("HIV"). The Company intends to develop and obtain FDA approval for the use of monoclonal antibodies to treat patients with HIV by protecting the cells of the body's immune system that are otherwise killed by the disease. The Company is continuing the research and development of a treatment for HIV, using technology licensed to it by the

Company's president, and may either repeat Phase I trials, if necessary for non-clinical reasons, or with FDA approval, conduct a Phase II(b) study. The Company has not derived any revenues from the licensed technology, but the Company is planning to pursue further clinical trials.

On October 27, 2003, Rexray changed its name to CytoDyn, Inc.

Acquisition Agreement

On October 28, 2003, Rexray, the former Securities and Exchange Commission ("SEC") Registrant, entered into an Acquisition Agreement (the "Agreement") with CytoDyn of New Mexico, Inc. ("CytoDyn NM"), a company incorporated under the laws of New Mexico on June 4, 1994. Under the terms of the Agreement, Rexray agreed to acquire some of the assets of CytoDyn NM in exchange for 5,362,640 shares of its common stock. Following the acquisition, the former shareholders of CytoDyn NM held approximately 85.8 percent of the Company's outstanding common stock, resulting in a change in control. However, for accounting purposes, the acquisition has been treated as a recapitalization of CytoDyn NM, with Rexray the legal surviving entity. Since Rexray had minimal assets and no operations, the recapitalization has been accounted for as the sale of 890,000 shares of CytoDyn NM common stock for the net assets of Rexray. Therefore, the historical financial information prior to the date of the reverse business acquisition is the financial information of CytoDyn NM.

Prior to the Agreement, both Rexray and CytoDyn NM had insignificant operations and were not devoting efforts to establishing a business. Following the Agreement, the Company began devoting substantially all efforts to establishing a new business, but planned principal operations have not yet commenced. As a result, the Company's inception into the development stage has been established at October 28, 2003 and, in accordance with SFAS No. 7, the accompanying financial statements report cumulative financial information from the date of its inception into the development stage.

Under the terms of the Agreement, CytoDyn NM:

- Assigned the patent license agreement between CytoDyn NM and Allen D. Allen covering United States patent numbers 5424066, 5651970, and 6534057, and related foreign patents and patents pending, for a method of treating HIV disease with the use of monoclonal antibodies;
- Assigned its trademarks, CytoDyn and Cytolin, and related trademark symbol; and
- Paid $10,000 in cash

In consideration for the above, the Registrant:

- Effected a one-for-two reverse split of its common stock;
- Issued 5,362,640 shares of its common stock to the shareholders of CytoDyn NM;
- Amended its Articles of Incorporation to change its name to CytoDyn, Inc.; and
- Accepted $161,578 in liabilities related to the assigned assets

Going Concern

The 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 financial statements, the Company is currently in the development stage with losses for all periods presented. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability 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 medical treatment, obtain FDA approval, outsource manufacturing of the treatment, and ultimately to attain profitability. The Company intends to seek additional funding through equity offerings to fund its business plan. There is no assurance that the Company will be successful.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less when acquired, to be cash equivalents. The Company had no cash equivalents at May 31, 2006.

Furniture, Equipment and Depreciation

Furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally 3 to 7 years. Maintenance and repairs are charged to expense as incurred and major improvements or betterments are capitalized. Gains or losses on sales or retirements are included in the statement of operations in the year of disposition.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of any long-lived assets under the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying value or fair value, less costs to sell.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Research and Development

Research and development costs are expensed as incurred.

Earnings (Loss) per Common Share

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares (the denominator) for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

At May 31, 2006, there was no variance between basic and diluted loss per share as there were no potentially dilutive common shares outstanding.

Financial Instruments

At May 31, 2006, the fair value of the Company's financial instruments approximate fair value due to the short-term maturity of the instruments.

Stock-based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123. SFAS 123 requires the fair value based method of accounting for stock issued to non-employees in exchange for services.

Companies that elect to use the method provided in APB 25 are required to disclose pro forma net income and pro forma earnings per share information that would have resulted from the use of the fair value based method. The Company has elected to continue to determine the value of stock-based compensation arrangements under the provisions of APB 25. Pro forma disclosures are included in Note 6.

Plan of Operation

During the next 12 months, our objectives are:

- to meet with the FDA and seek approval to continue Phase II(b) clinical trial of Cytolin;
- to obtain three seeds from the University of Massachusetts from plasmid-DNA products to protect human subjects from the flu, and, depending upon the animal data provided by the University, to have a pre-IND meeting with the FDA;
- to begin formulation of Formaxycin(TM)as a topical product;
- to continue our efforts to protect our technology by obtaining additional patents in The United Kingdom, the European Union and Hong Kong;
- to raise approximately $2 to $8 million in additional funds needed to support our research and development efforts, the clinical trials relating to Cytolin and our general and administrative expenses, while keeping dilution to a minimum if possible; and
- to explore joint venture arrangements for or in combination with other possible pharmaceutical products.

Continuing Clinical Trials:

Phase I(b)/II(a) 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(b) trials. We purchased the data from these trials from Symbion and will use the data to present to the FDA.

Projected costs to complete our research and development and to obtain FDA approval of a Biologics Licensing Application:

We have negotiated with Symbion International for the right to use the Phase I(b)II(a) data for a total of $362,000 and to seek approval for the Phase II(b) 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 6,056,981 for Symbion to conduct the clinical trials, including estimated manufacturing and supply costs of $450,000 and $362,000 for the Phase Ia/b data.

Once AITI has obtained the seeds from the University of Massachusetts, AITI will begin developing a commercial manufacturing method in consultation with the FDA. TWe believe we have earmarked sufficient funds on hand to complete this task.

Timing and anticipated completion dates for research and development.

Clinical trials for Cytolin can take anywhere from 29 to 42 months. Until we have met with theFDA, which we plan to do within the next sixmonths, we cannot be certain what additional work must be done before commencing Phase II(b) trials of Cytolin(R). Until we receive the seeds from the University of Massachusetts and have had a pre-IND meeting with the FDA, we cannot be certain what additional work will be required for beginning Phase 1 studies of the plasmid DNA products. Date we expect to begin benefiting from the product:

We hope to complete our research and development of all Cytolin clinical trials needed for approval of a marketing application, if at all, by December 2012 but might get product into the clinic for the limited indication of salvage therapy as early as 2009 via treatment INDs depending upon the results from Phase II(b). We hope to begin clinical development of plasmid DNA products by May of 2009 but much depends upon whether there is another influenza pandemic. As a general rule

of thumb, it takes at least 15 years, and more typically 20 years, from the time a drug is discovered until it is approved. However, the value of a drug increases as the risk is reduced by progress along the development track. After a successful, well-designed and well executed Phase II study, swe may benefit from licensing-and distribution alliances if the expected sales generated by the drug are very high.

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. Please see the section entitled "Risk Factors."

Patents

We have a 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

Our wholly owned subsidiary AITI has a non-exclusive license to the following patents from the University of Massachusetts

Serial Number	Filing Date	Issue Date	Patent #	Country
08/009,833	1/27/1993	7/1/1997	5,643,578	USA
08/187,879	1/27/1994	1/11/2005	6,841,381	USA
10/763,049	1/22/2004	NA	pending	USA

PCT/US93/02394	3/17/1993	NA	NA	PCT
PCT/US95/00997	1/25/1995	NA	NA	PCT
93907536	3/17/1993	NA	NA	EP
01202355.2	6/18/2001	NA	NA	EP
2,132,836	9/23/1994	NA	NA	CA
2,181,832	1/25/1995	NA	NA	CA
07-520142	1/25/1995	NA	NA	JP
2003-28160	7/29/2003	NA	NA	JP
JP7507203				
JP9508622T				
JP2004099603				
AU3150295				

Our wholly owned subsidiary AITI has an exclusive license to the following patents(s) exclusively from the University of Massachusetts

University invention disclosure UMMC04-96 entitled "Influenza Nucleic Acids, Polypeptides, and Uses Thereof" as embodied in Patent Applications 60/655,979; 11,362,617; and PCT/US2006/006701 and naming Shan Lu and Shixia Wang as inventors.

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. The proceeds from the public offering paid continue to be used for working capital. During the last two quarters we raised $509,500 through convertible promissory notes at a conversion price of $1.25 with warrants attached and exercisable at $2.50 per share. $437,500 of the notes were converted into 350,000 shares. 57,600 shares were issued after May 31, 2006 and converted from the remaining convertible notes outstanding of $62,000. To date, none of the warrants have been exercised.

We will require additional funding during the 2007 fiscal year in order to continue with research and development efforts and to stay in business. When we acquired AITI our wholly owned subsidiary, it contained $512,200 in cash In addition to operating funds, we will need from approximately$2,000,000 to $8,000,000 to 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(b) study of Cytolin and/or a Phase I study of plasmid

DNA.

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.

As of May 31, 2005, we 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.

When we acquired the wholly owned subsidiary Advanced Influenza Technologies Inc. AITI, we acquired $675,000 in cash of which $162,800 was paid to the University of Massachusetts for the development of the seeds, leaving net available funds of $512,200.

Joint Ventures

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

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 granted 83,122 non-qualified stock options with an exercise price of $.75 per share that vested immediately and be exercisable over 5 years on March 20, 2006.
- CytoDyn, Inc paid $25,000 in March 2005.
- CytoDyn, Inc will pay $275,000 to Symbion once our secondary financing is received.
- The results of the Phase II(b) 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.

Contract with UTEK(r)

We have entered into an agreement with UTEK(r) in March 2006, wherein UTEK(r) agrees to identify and present new technology and company acquisition opportunities for CytoDyn in exchange for 40,000 unregistered shares of common stock. 1/12th of the shares (3,333) shall vest each month during the term of the12 month agreement.

UTEK(R) is a leading, market-driven technology transfer company that enables

companies to rapidly acquire innovative technologies from universities and research laboratories worldwide. UTEK facilitates the identification and then finances the acquisition of external technologies for clients in exchange for their equity securities. This unique process is called U2B(r). In addition to its U2B(r) service, UTEK offers both large and small capitalization companies the tools to search, analyze and manage university intellectual properties. UTEK has operations in the United States, United Kingdom and Israel. For more information about UTEK, please visit its website at www.utekcorp.com.

Exploring Other Joint Ventures

While we continue to pursue FDA approval of our existing pipeline products, we are also considering entering into joint ventures to develop or co-develop other related, synergistic types of products. We may also pursue joint ventures or other arrangements to obtain funding 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, 2006, we expended $215,384 in professional fees, consisting of $150,894 legal fees and professional fees incurred in connection with our public registration, our additional patent protection filings, and litigating our pending lawsuits, and $15,900in accounting and auditing fees. Transfer agent fees and EDGAR filing fees were $5,926 and $1,979 respectively. $50,685 was paid for consulting work to various consultants.

Item 7. Financial Statements

The financial statements and supplementary data required by this item are submitted in a separate section beginning on page F-1 of this report.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 8A. Controls and Procedures.

An evaluation as of the end of the period covered by this report was carried out, under the supervision and participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings.

Item 8B. Other Information

None.

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 10(a) of the Exchange Act.

Name	Age	Positions Held *
Allen D. Allen	69	President, Chief Executive Officer, Director
Wellington A. Ewen	66	Chief Financial Officer, Director Audit Committee
Corinne E. Allen	38	Vice President Business Development, Secretary, Treasurer, Director
Gregory A. Gould, CPA	40	Director, Audit Committee Compensation Committee
Jonathan R. Leong	54	Director, Compensation Committee

* Each officer and Director holds office until his/her successor has been elected and qualified.

Allen D. Allen. Mr. Allen has been our chairman of our board and our president and chief executive officer since October, 2003. Before joining CytoDyn, he was the chairman of the board of directors and chief executive officer of CytoDyn of New Mexico, Inc., since its inception in 1994. from 1990 to 1994 he was a research associate with Olive View-UCLA Medical Center where he collaborated and published with various medical professors oribinal research on HIV, dermatology and general immunology and was the co-investigator on an autologous vaccine study. From1986 to 1990 Mr. Allen was director of scientific affairs, Center for Viral Diseases, Northridge, California, where he conducted and published original research on a large cohort of patients with complex constellations of neuroimmunologic complaints. From 1971 to 1986 he was president of Algorithms, Incorporated where he conducted and published original research in the areas of artificial intelligence, perception, man and machine systems and societal engineering. Over the past thirty years, he has published numerous papers in the peer review science and medical journals. He has also served as an investigator on clinical research sponsored by major pharmaceutical companies, such as Ortho Biotech, Johnson & Johnson, and Sanofi-Winthrop. Mr. Allen invented and patented the family of HIV/AIDS therapies licensed to CytoDyn. He is a member of the American Physical Society and the American Federation of Scientists, a life member of the Institute of Electrical and Electronics Engineers, and a founding member of the Editorial Board of Physics Essays. Mr. Allen received an Associates of Arts degree from the University of California at Berkeley in 1957 and attended the University of California at Los Angeles from 1957 to 1959. In 1953 he received a national ARS Student Award in aeronautics from the American Rocket Society (now the Institute of Aeronautics and Astronautics). Mr. Allen is the father of Corinne E. Allen, our Vice President of Business Development.

Wellington A. Ewen, CPA, MBA. Mr. Ewen, has been our chief financial officer since May 6, 2004 and our Director since January 31, 2006. He also serves on our Audit Committee. From 1988 until 2000, Mr. Ewen was owner of Wellington Ewen & Associates in Malibu, California, which represented many clients as financial and accounting consultants. He also served as financial and accounting officer for several development stage pharmaceutical companies, including Entropin, Inc. from April 1998 to June, 2000. From February, 1999 until his resignation in 2000, he was the chief financial officer of Amerimmune, Inc. From January, 2000 to July, 2000, he also served as a manager at PriceWaterHouseCoopers in Los Angeles, California. Mr. Ewen is currently licensed as a CPA in Oregon. He

received his Bachelor of Science in 1963 and Master of Business Administration from Cornell University in 1964.

Corinne E. Allen, CPA. Ms. Allen has been a director and our secretary and treasurer since October 2003, and was until May 2004, our chief financial officer. In May 2004, Ms. Allen became the vice president of business development. From April 1995 to October 2003, she served as secretary and treasurer of CytoDyn of New Mexico, Inc. where she was also a director from June, 1994 to October 2003. Ms. Allen is a licensed Certified Public Accountant. From 1999 to 2003, Ms. Allen was employed as a senior manager at Deloitte & Touche, and, from 1992 to 1998 was a CPA at Hallquist Jones P.C. She has over 17 years experience in the accounting industry. Ms. Allen received a B.S. in Business Administration from California State University Northridge with a specialty in Accounting Theory and Practice in 1992. She has been a Certified Public Accountant since January 1997. Ms.Allen is the daughter of Allen D. Allen. Gregory A. Gould, CPA

Mr. Gould has been a director since March 20, 2006 and a member of our Audit Committee and Compensation Committee since May 15, 2006. Mr. Gould has worked in the life sciences industry for the past decade as a senior executive. Until its acquisition by QLT, Inc. for approximately $850 million in November of 2004, Mr. Gould served as Chief Financial Officer, Treasurer and Secretary of Atrix Laboratories, Inc. Atrix was a Nasdaq company with over $60 million in annualized revenues and 160 employees in two countries. From February of 1996 until its acquisition by KRG Capital Partners in October of 2003, Mr. Gould was the Director of Finance, and then Chief Financial Officer and Treasurer of Colorado MEDtech, a Nasdaq company with over $77 million in annualized revenues and 500 employees located in four States. Mr. Gould received his B.S. in Business Administration form the University of Colorado at Boulder in 1989. He is a Certified Public Accountant in Colorado and a member of the Colorado Society of Certified Public Accountants

Jonathan Leong

Mr. Leong has been a director since May 15, 2006 and on the Compensation Committee since May 15, 2006. Mr. Leong is a prominent Asian-American insurance executive from Northern California. He has served as a member of the California Earthquake Authority Advisory Panel, and as a Commissioner for the White House Initiative on the Asian American and Pacific Islanders. Mr. Leong was a Founding Member of the National Council of Asian American Business Associations and is a principal of JLA Global, Inc., an international trading company and national distributor of various products including health and cosmetic products. As President of Emerald Bay Resources, Mr. Leong has been responsible for environmental clean-up projects in Mexico and Puerto Rico.

We have no other significant employees whom we expect to contribute significantly to our business. We have several consultants who contribute significantly to our business including, Peggy Pence, Phd. CEO of Symbion, Huey Hua Asian Consultant, Don Donchuanchom as our Investor Relations Consultant.

We are in the process of establishing a Scientific Advisory Board. Currently serving on it are Dr. Trevor Hawkins and Dr. Narendar Bhatia.

Trevor N. Hawkins, MD

Dr. Hawkins currently serves as Medical Director & Principal Physician at the Southwest C.A.R.E. Center in Santa Fe, NM. His extensive clinical experience in

managing HIV/AIDS includes having been the Medical Director & Principal Physician at the AIDS Wellness Program, also in Santa Fe, NM, from 1995 -1996. Dr. Hawkins' experience with infectious diseases predates the AIDS pandemic. From 1976-1981 he was the Medical Director of the 30-bed General Hospital near Bombay, India, where he was Co-investigator for a study of Dengue Fever Virus with the National Viral Institute, Poona, India. During these years Dr. Hawkins also served as a field worker who collected data on Non-A/Non-B Hepatitis for the Centers for Disease Control and Prevention in Atlanta, GA.

Dr. Hawkins is a "doctor's doctor," with skills that go beyond a narrow focus on infectious diseases. From 1996 through the present time he has been an Associate Clinical Professor in the Department of Family Practice at the University of New Mexico. As a teacher of primary care medicine, he spends time at the bedside, and counsels patients and medical students alike.

Among his many awards was the 1995 Provider of the Year Award through Santa Fe CARES, with a Commendation from the State of New Mexico. In 1999 Dr. Hawkins was again honored in Santa Fe, NM with the Human Rights Advocate Award through the Human Rights Alliance.

More than a caring and worldly healer and teacher, Dr. Hawkins is also a prominent AIDS researcher. His extensive work on clinical trials includes GlaxoSmithKline Protocol HPR10006, which has run from 2004 onward as a Pilot, Phase II, Open-Label, SIngle-Arm Study to Evaluate the Efficacy, Safety, Tolerability, and Pharmacokinetics of GW640385X when Administered with Ritonavir in combination with Nucleoside Reverse Transcriptase Inhibitors for 48 weeks in HIV-1 infected adults. From 2005-2006 he worked on Gilead Sciences Protocol GS-US-183-0101, a Double-Blind, Randomized, Placebo-Controlled Phase 1/2 Study of the Safety, Pharmacokinetics & Antiviral Activity of GS-9137 Following Oral Administration in Subjects Infected with HIV-1.

In addition to participating in large multicenter trials, Dr. Hawkins has published scholarly papers on his own, original AIDS research in the peer-review journals AIDS Clinical Trials and the Journal of AIDS.

Narender Bhatia, M.D. FACOG

Dr. Bhatia is Professor in Residence at David Geffen School of Medicine at UCLA and the Chief of the Division of Urogynecology at Harbor/UCLA Medical Center, University of California at Los Angeles, California.

Dr. Bhatia earned his undergraduate and medical degrees with honors at Punjab University in India, completed his residency at Albany Medical center of Union University, Albany, New York, and earned his fellowship in Gynecologic Urology, Urodynamics and Neurology at Long Beach Memorial Medical Center and V.A.Medical Center, University of California, Irvine.

Dr. Bhatia has been the Director of the fellowship program in female pelvic medicine and reconstructive surgery since1982. He is well known nationally and internationally for his excellence as a pelvic surgeon, urogynecologist, teacher and researcher. He has published over 160 research papers, monographs, abstracts and book chapters.

Dr. Bhatia's special areas of research interest include uroneurology of micturition disorders; the effects of ageing, hormonal manipulation and pelvic surgery upon bladder and urethral functions; and stem cell research in the management of urinary incontinence. He has been actively involved in designing prosthetic devices and surgical instruments for the management of pelvic prolapse and urinary incontinence.Dr.Bhatia serves as a senior consultant and

advisor to various Pharmaceutical and Biotech companies . Besides maintaining an active consulting practice in advanced pelvic surgery and urogynecology, Dr. Bhatia participates in various national and international societies, committees and lecture series. He serves on the editorial boards of various medical journals and is also as a reviewer for numerous scientific publications. Dr. Bhatia has written and obtained numerous instituitional and Pharmaceutical grants over the years and has served as a principal investigator for many these grant projects

Compliance with Section 16(a) of the Exchange Act.

Section 16(a) of the Exchange Act requires our Officers and Directors, and persons who beneficially own more than 10% of our common stock, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to provide copies of those filings to us. Based solely on our review of the copies of those forms furnished to us during the fiscal year ended May 31, 2006, we are aware of the following untimely filings:

Name	Position Held	Report	Number of Late Reports

Code of Ethics.

We have adopted a Code of Ethics for our Chief Executive Officer, Vice President of Business Development and our Chief Financial Officer. This Code of Ethics can be found on our website at www.cytodyn.com.

Item 10. Executive Compensation

The following table provides an overview of compensation that CytoDyn, Inc. paid to the Named Executive Officers for the fiscal years ended May 31, 2006, 2005

Summary Compensation Table

		Annual Compensation Awards	Long Term Compensation	
Name and Principal Position	Year	Salary	Securities Underlying Options (# shares)	All Other Compensation
Allen D. Allen, President, Chief Executive Officer	2006 2005	150,000 (1) 98,000 (1)	0 0	0 0
Wellington A. Ewen Chief Financial Officer President (3)	2006 2005	50,000 (2) 50,000 (2)	0 0	0 0

Corinne Allen	2006	100,000		
Vice President	2005	60,000		

1. Mr. Allen's employment agreement with CytoDyn for fiscal year 2005 provides for a salary of $98,000. As of February 2006 his salary was approved by Board of Directors for $150,000He was paid a total of $32,668 as of the end of the fiscal year 2005 , and $90,332.69 for fiscal year 2006 and the remainder of his salary was accrued.
2. Ms. Allen was approved for salary of $100,000 February 2006, she was $55,833 for the fiscal year 2006 and the remainder was accrued. In prior years her salary was under $100,000.
3. Mr. Wellington A. Ewen. is eligible to receive an option for 50,000 shares that became exercisable at the end of his first year of employment, exercisable at $0.50 a share, additional options for 50,000 shares that became exercisable at the end of his second year of employment, exercisable at $1.00 a share, and options for 50,000 shares that will become exercisable at the end of his third year of employment, exercisable at $1.50 a share.

Director Compensation

Our directors were granted 25,000 nonqualified stock options per person in March and May 2006. One quarter of the options vest immediately and the remaining options vest monthly over 48 months. The exercise price was $2.68 for options granted to Gregory Gould $2.95 for Allen D. Allen and Corinne Allen and $1.96 for Jonathan Leong. The exercise price was based upon the closing bid of the common stock on March 20, 2006 and May 15, 2006 which were the dates the Board authorized the granting of the stock options.

Personal Service Agreements

These expired and have not yet been renewed by Compensation Committee . We expect to enter into Personal Service Agreements with our Executives in the next quarter of this fiscal year 2007.

Proprietary Information And Inventions Agreement

Wellington E. Ewen, our chief financial officer, and Corinne E. Allen, our vice president for business development, and all other employees have signed and delivered to us a Proprietary Information and Inventions Agreement For Employees. Among other things, each agreement provides that:

It is effective from the first date of employment until five years from the date of termination of employment. Employment is defined to include any time retained as a consultant or on contract. The employee will refrain from any activity that is hostile, adverse or competitive, or otherwise interferes with the executive's service, to us; We are the sole owner of the "Proprietary Information" and all patents and other rights related to it Any rights that the employee has or may acquire in the "Proprietary Information" are assigned to us.

The "Proprietary Information" will be kept in confidence and trust during and after employment All works made by the employee during employment that fall within our scope of our business are Works for Hire, and we will have the sole and exclusive copyrights in them.

All "Inventions" made by the employee (either alone or jointly) during the period of employment, will be disclosed to us and we will be the sole owner of them, and any related patents and rights.

Change Of Control Agreement

Allen D. Allen, our president and chief executive officer, and Corinne E. Allen, our vice president for business development, have signed and delivered to us a Change of Control Agreement. Among other things, each agreement provides that:

- The Agreement will terminate at the time the executive's employment with us terminates or is terminated;
- Upon termination of the executive's employment by us without "cause" or by him or her with "good reason", in either case within 6 months after a "change of control", the executive will be entitled to:
  - Base salary for the remainder of the term and 12 additional months
  - Immediate vesting of all stock options,
  - 4 month period in which to exercise options thereby vested,
  - Payment of our portion of premiums under our health plan for the shorter of 12 months or the executive's eligibility for coverage under a health plan offered by the executive's new employer, and
  - Payment of our portion of premiums under our life insurance plan or an equivalent amount for 12 months.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth as of August 29, 2006 the beneficial ownership of common stock by each person who is known by CytoDyn to own beneficially more than 5% of the outstanding shares of common stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership*	Percent of Class Beneficially Owned
Allen D. Allen(2)	2,118,515	18.92%
Corinne E. Allen(2)	1,604,071	14.89%
UTEK Corporation	2,040,000 (1)(3)	18.17%

* To CytoDyn's knowledge, all persons have sole voting power of the shares.

(1) UTEK Corp received 40,000 when we retained their services in April 2006. They received another 2,000,000 shares in exchange for the acquisition of Advanced Influenza Technologies, Inc. in July 2006.
(2) Address of shareholders Allen D. Allen is 4236 Longridge Ave, Suite 302, Studio City, CA 91604 Corinne Allen is 227 E. Palace Ave, Suite M, Santa Fe, NM 87501
(3) The address of the shareholder is 202 South Wheeler Street, Plant City, FL 33563

The following table sets forth as of August 29, 2006, the number of common stock beneficially owned by all directors and executive officers.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner(1)	Percent of Class*
Allen D. Allen2	2,118,515	18.92%
Wellington A. Ewen(2,3)	-0-	*
Corinne E. Allen(2)	1,604,071	14.89%
Ronald J. Tropp(2)	-0-	*
Gregory A. Gould	5,000	*
Jonathan Leong	24,000	*
All Officers and Directors as a Group	3,756,586	33.46%

*Less than 1% of outstanding common stock

(1) Each shareholder has sole voting and investment power for the shares.
(2) The address for the shareholders is in care of the corporation at 227 E. Palace Ave, Suite M, Santa Fe, New Mexico 87501
(3) Mr. Ewen has options to purchase 150,000 shares of common stock in connection with an employment agreement. None have yet been exercised. We know of no arrangements concerning anyone's ownership of stock, which may, at a subsequent date, result in a change of control.

Item 12. Certain Relationships and Related Transactions

Related Party Transactions. We propose to be, or since the beginning of the last fiscal year were, party to certain transactions involving amounts in excess of $60,000, in which our directors, executive officers, others hold more than 5% of any class of our securities, or their immediate family members, had or will have a material interest. The interested parties and transactions are described below.

Common Stock, Options and Compensation. For a discussion of transactions within the past two years having aggregate values in excess of $60,000 and involving compensation paid or securities issued to our directors or executive officers, please see the discussions entitled "Executive Compensation" in Part III, Item 10 and "Security Ownership of Certain Beneficial Owners and Management And Related Stockholder Matters" in Part III, Item 11.

Indemnification, Legal Costs and Fees Incurred by Directors and Officers.

Note Given and Debt Owed to Allen D. Allen. In January 2004 we issued to Allen D. Allen, our president, chief executive officer and the chairman of our board of directors, a non interest bearing promissory note, payable on demand, in the original principal amount of $22,788 The note reflects advances made to us by Mr. Allen during the years ending on May 31, 2003 and May 31, 2004. In addition, we owe the sum of $10,000 to Mr. Allen, who advanced that amount to CytoDyn of New Mexico for further payment to Rexray Corporation in connection with the acquisition of the assets of CytoDyn of New Mexico. The sum owed does not bear interest and is payable on demand. As of May 31, 2006 debt owed to Allen D. Allen increased by an additional $9,681 The total debt owed to Mr. Allen is $32,468.

Notes Given to Corinne Allen. In January 2004, we issued to Corinne E. Allen, our vice president of business development, secretary, treasurer and director, two non interest bearing promissory notes, each payable on demand, in the original principal amounts of $50,000 and $38,906. The notes reflected advances made to us by Ms. Allen during the years ending on May 31, 2003 and May 31, 2004. The $50,000 note was paid in full in February, 2004. The $38,906 note remains outstanding and does not bear interest.

Item 13. Exhibits

Incorporated by Reference

Exhibit Number	Exhibit Description	Form	Filing Date
2.01	Agreement and Plan of Acquisition	8K	7/21/2006
3.i	Articles of Incorporation	10SB	7/11/2002
3.i.2	Amendment to Articles of Incorporation	8K	11/12/2003
3.ii	Bylaws	10SB	7/11/2002
9.01	Exclusive License Agreement	8K	7/21/2006
9.02	Nonexclusive License Agreement	8K	7/21/2006
9.03	Sponsored Research Agreement	8K	7/21/2006
10.i	Acquisition Agreement Between Rexray Corporation and CytoDyn of NM, Inc. dated October 28, 2003	8K/A	1/12/2004
10.ii	Patent License Agreement between CytoDyn of New Mexico, Inc and Allen D. Allen and Amendment to Patent License Agreement	10KSB	9/14/2004
10.iii	Personal Services Agreement between Allen	10KSB	9/14/2004
10.iv	Personal Services Agreement Between Wellington A. Ewen and CytoDyn, Inc.	10KSB	9/14/2004
10.v	Personal Services Agreement between Corinne	10KSB	9/14/2004
10.vi	Financial Representative Agreement between J.P. Turner & Company, LLC and CytoDyn, Inc	10KSB	9/14/2004
10.vii	Change of Control Agreement between Allen D. Allen and CytoDyn, Inc.	10KSB	9/14/2004
10.viii	Change of Control Agreement between Corinne	10KSB	9/14/2004
10.ix	Proprietary Information between Corinne E. Allen and CytoDyn	10KSB	9/14/2004

10.x	Proprietary Information between Wellington A. Ewen and CytoDyn, Inc.	10KSB	9/14/2004
10.xi	Proprietary Agreement between Allen D. Allen and CytoDyn, Inc.	10KSB	9/14/2004
10.xii	Specimen of Common Stock Certificate	SB-2	6/01/2004
10.xiii	Subscription Agreement	SB-2	6/01/2004
10.xiv	Office Lease Agreement	SB-2/A	10/21/2004
10.xv	Conditional License Agreement and Court Order for Its Termination	SB-2/A	10/21/2004
10.xvi	Master Agreement for Professional Services with Symbion	SB-2/A	10/21/2004

Exhibit Number	Exhibit Description	Form	Filing Date
10.xvii	Amendment No. 1 to Agreement Dated September 30, 2003	SB-2/A	1/13/2005
10.xviii	Buy-Sell Agreement	SB-2/A	1/13/2005
10.xix	Amendment to Patent License Agreement	SB-2/A	3/21/2005
14	Code of Ethics	10KSB	9/14/2004

Filed Herewith

21	Subsidiaries of the Company: None
31.1:	Section 302 Certification of Allen D. Allen
31.2	Section 302 Certification of Wellington A. Ewen
32.1	Section 906 Certification of Allen D. Allen
32.2	Section 906 Certification of Wellington A. Ewen

Item 14. Principal Accountant Fees and Services

Approval of Services

The Board of Directors has resolved to establish an audit committee composed of our chief financial officer, Wellington Ewen, Gregory A. Gould, CPA and another independent member when that person is identified. The audit committee does not yet have a charter. Pending proper establishment of the audit committee, the

Board of Directors pre-approves all engagements for audit and non-audit services provided by the Company's principal accounting firm, Cordovano and Honeck, P.C.

Audit Fees

The aggregate fees billed during the fiscal years ended May 31, 2006 and 2005 for professional services rendered by our principal accounting firm, Cordovano and Honeck, P.C., for the audit of the financial services included in Form 10-KSB, and for the review of the interim condensed financial statements included in Form 10-QSB, were approximately $15,900 and $9,780, respectively. Included here are fees associated with the review by Cordovano and Honeck, P.C. of a registration statement filed with the SEC and the related issuance of independent accountant consent letters.

Audit Related Fees

The aggregate fees billed during the fiscal years ended May 31, 2006 and 2005 for assurance and related services rendered by our principal accounting firm, Cordovano and Honeck, P.C., were approximately $0 and $0 respectively. Assurance and related service fees include the audit of employee benefit plan financial statements and audit-related due diligence assistance on potential acquisitions.

Tax Compliance/Preparation Fees

The aggregate fees billed during the fiscal years ended May 31, 2006 and 2005 for professional services rendered by our principal accounting firm, Cordovano and Honeck, P.C., for tax compliance, tax advice, and tax planning were approximately and $0, respectively. Tax compliance services include the preparation of income tax returns filed with the Internal Revenue Service. Tax advice and planning services included assistance with implementation of tax planning strategies and consultation on other tax matters.

All Other Fees

The aggregate fees billed during the fiscal years ended May 31, 2006 and 2005 for all other professional services rendered by our principal accounting firm, Cordovano and Honeck, P.C., were approximately $0 and $896, respectively. Other services consisted of assistance with the interpretation of new accounting standards and other related services.

Chart of Fees Paid to Independent Auditing Firm For Past Two Fiscal Years

	For fiscal years ended May 31,			
Type of Service	2006	% not pre-approved(1)	2005	% not pre-approved(1)
Audit fees	$ 10,000		$ 9,780	
Audit-related fees	$		0	
Tax fees				

Tax compliance				
Tax advice & planning				
Total tax fees				
All other fees			896	100%
Total fees	$		$	

1 These percentages reflect services for which the pre-approval requirement is waived under applicable accounting rules.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CytoDyn, Inc.

By: /s/ Allen D. Allen
Allen D. Allen, Chief Executive Officer
Date: September 1, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Allen D. Allen Date: September 1, 2006
Allen D. Allen, President, Chief Executive Officer, Director

/s/ Wellington A. Ewen Date: September 1, 2006
Wellington A. Ewen, Chief Financial Officer, Director

/s/ Corinne E. Allen Date: September 1, 2006
Corinne E. Allen, Vice President of Business Development, Secretary, Treasurer, Director

/s/ Jonathan Leong Date: September 1, 2006
Jonathan Leong, Director

/s/ Gregory A. Gould Date: September 1, 2006

Gregory A. Gould, Director/

CYTODYN, INC.
(A Development Stage Company)
Index to Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
CytoDyn, Inc.:

We have audited the accompanying balance sheet of CytoDyn, Inc. (a development stage company) as of May 31, 2006, and the related statements of operations, changes in shareholders' deficit, and cash flows for the years ended May 31, 2006 and May 31, 2005 and the period from October 28, 2003 (inception) through May 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a

reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CytoDyn, Inc. as of May 31, 2006, and the results of its operations and its cash flows for the years ended May 31, 2006 and May 31, 2005 and the period from October 28, 2003 (inception) through May 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered significant operating losses since inception, which raises a substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Cordovano and Honeck, LLP
Englewood, Colorado
September 1, 2006

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

May 31, 2006

Assets

Current Assets:	
Cash	$ 125,320
Prepaid expenses	303,160
Total current assets	428,480
Furniture and equipment, less accumulated depreciation of $2,204 (Note 2)	2,334
Intangible asset, less accumulated amortization of $1,722 (Note 3)	1,128
Deposit	495
	$ 432,437

Liabilities and Shareholders' Deficit

Current Liabilities:	
Accounts payable	$ 110,267
Accrued liabilities	133,588
Accrued interest payable	5,267
Notes payable, net (Note 4)	23,863
Derivative liability (Note 5)	75,456
Indebtedness to related parties (Note 6)	393,360

Total current liabilities	741,801
Commitments and contingencies (Note 9)	150,000
Total liabilities	891,801
Shareholders' deficit (Note 7):	
Preferred stock, no par value; 5,000,000 shares authorized, -0- shares issued and outstanding	--
Common stock, no par value; 20,000,000 shares authorized, 9,147,664 shares issued and outstanding	3,062,566
Additional paid-in capital	834,809
Accumulated deficit	(1,601,912)
Deficit accumulated during development stage	(2,754,827)
Total shareholders' deficit	(459,364)
	$ 432,437

See accompanying notes to financial statements

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

	For the Year Ended May 31,		October 28, 2003 (Inception) through
	2006	2005	May 31, 2006
Operating expenses:			
General and administrative (Net of $537,552, $11,928, and $549,480, respectively, stock-based compensation) (Note 7)	$ 619,564	$ 373,342	$ 1,310,586
Stock-based compensation	537,552	11,928	549,480
Research and development	--	362,342	362,342
Legal fees, related party (Note 6)	20,800	25,900	66,750
Litigation (Note 9)	150,000	--	150,000
Depreciation	2,101	1,671	3,976
Total operating expenses	1,330,017	775,183	2,443,134
Operating loss	(1,330,017)	(775,183)	(2,443,134)
Interest income	101	234	678
Interest expense	(112,846)	(2,134)	(115,433)
Gain on derivative liability (Note 5)	159,094	--	159,094
Loss on debt extinguishment (Note 5)	(356,032)	--	(356,032)

Loss before income taxes ...	(1,639,700)	(777,083)	(2,754,827)
Income tax provision (Note 8)	--	--	--
Net loss	$(1,639,700)	$ (777,083)	$ (2,754,827)
Basic and diluted loss per share	$ (0.19)	$ (0.12)	
Basic and diluted weighted average common shares outstanding	8,639,483	6,557,362	

See accompanying notes to financial statements

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

	Preferred Stock		Common Stock		Additional Paid-in	Accum
	Shares	Amount	Shares	Amount	Capital	Def
Balance at October 28, 2003, following recapitalization ..	--	$ --	6,252,640	$1,425,334	$ 23,502	$(1,5
February through April 2004, sale of common stock less offering costs of $54,000 ($.30/share) (Note 6)	--	--	1,800,000	486,000	--	
February 2004, shares issued to former officer as payment for working capital advance ($.30/share) (Note 5)	--	--	16,667	5,000	--	
Net loss, year ended May 31, 2004	--	--	--	--	--	
Balance at May 31, 2004	--	--	8,069,307	1,916,334	23,502	(1,6
July 2004, capital contribution by an officer ..	--	--	--	--	512	
November 2004, common stock warrants granted (Note 6) ...	--	--	--	--	11,928	
February 2005, capital contribution by an officer ..	--	--	--	--	5,000	
Net loss, year ended May 31, 2005	--	--	--	--	--	
Balance at May 31, 2005	--	--	8,069,307	1,916,334	40,942	(1,6

June through July 2005, sale of common stock less offering costs of $27,867 ($0.75/share) (Note 5)	--	--	289,890	189,550	--	
August 2005, common shares issued to extinguish promissory notes payable and related interest ($0.75/share) (Note 3)	--	--	160,110	120,082	--	
May 2006, common shares issued to extinguish convertible debt (Note ??) ..	--	--	350,000	437,500	--	
November 2005, 94,500 warrants exercised ($0.30/share) (Note 5)	--	--	94,500	28,350	--	
January through April 2006, common shares issued for services (Note 5)	--	--	183,857	370,750	--	
January through June 2006, warrants issued with convertible debt (Note 3) ...	--	--	--	--	274,950	
March through May 2006, stock options granted to consultants (Note __)	--	--	--	--	432,576	
March 2006, stock options issued to extinguish debt (Note 2)	--	--	--	--	86,341	
Net loss, year ended May 31, 2006	--	--	--	--	--	
Balance at May 31, 2006	--	$ --	9,147,664	$3,062,566	$ 834,809	$(1,6

See accompanying notes to financial statements

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

	For the Year Ended May 31,		October 28, 2003 (Inception) through
	2006	2005	May 31, 2006
Cash flows from operating activities:			
Net loss	$(1,639,700)	$ (777,083)	$ (2,754,827)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation	2,101	1,671	3,976
Gain on derivative liability	(159,094)	--	(159,094)
Loss on debt extinguishment	356,032	--	356,032
Stock-based compensation (Note 6)	537,552	11,928	549,480

Changes in current assets and liabilities:			
Increase in prepaid expenses	(4,759)	(25,039)	(46,100)
Increase in deposits	--	--	(495)
Increase in accounts payable and accrued liabilities	305,794	93,844	389,510
Net cash used in operating activities	(602,074)	(694,679)	(1,661,518)
Cash flows from investing activities:			
Equipment purchases	(936)	(3,167)	(7,438)
Net cash used in investing activities	(936)	(3,167)	(7,438)
Cash flows from financing activities:			
Capital contributions by officer	--	5,512	5,512
Proceeds from notes payable issued to related parties (Note 5)	--	385,300	501,126
Proceeds from notes payable issued to individuals (Note 4)	509,500	121,000	580,500
Proceeds from the sale of common stock (Note 6)	245,767	--	785,767
Payment of offering costs (Note 6)	(27,867)	--	(81,867)
Net cash provided by financing activities	727,400	511,812	1,791,038
Net change in cash	124,390	(186,034)	122,082
Cash, beginning of period	930	186,964	3,238
Cash, end of period	$ 125,320	$ 930	$ 125,320
Supplemental disclosure of cash flow information:			
Income taxes	$ --	$ --	--
Interest	$ --	$ 234	$ 687
Non-cash investing and financing transactions:			
Net assets acquired in exchange for common stock in CytoDyn/Rexray business combination (Note 1)	$ --	$ --	$ 7,542
Common stock issued to former officer to repay working capital advance	$ --	$ --	5,000
Common stock issued for debt (Note 4)	$ 120,082	$ --	$ 120,082
Options to purchase common stock issued for debt (Note 7)	$ 86,341	$ --	$ 86,341
Common stock issued for convertible debt (Note 4)	$ 437,000	$ --	$ 437,000

See accompanying notes to financial statements

CYTODYN, INC.
(A Development Stage Company)
Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Organization and Basis of Presentation

CytoDyn, Inc. (the "Company") was incorporated under the laws of Colorado on May 2, 2002 under the name Rexray Corporation ("Rexray"). The Company entered the development stage effective October 28, 2003 and follows Statements of Financial Accounting Standards ("SFAS") No. 7 "Accounting and Reporting by Development Stage Enterprises".

The Company plans to develop therapeutic agents for use against the disease associated with Human Immunodeficiency Virus ("HIV"). The Company intends to develop and obtain FDA approval for the use of monoclonal antibodies to treat patients with HIV by protecting the cells of the body's immune system that are otherwise killed by the disease. The Company is continuing the research and development of a treatment for HIV, using technology licensed to it by the Company's president, and may either repeat Phase I trials, if necessary for non-clinical reasons, or with FDA approval, conduct a Phase II(b) study. The Company has not derived any revenues from the licensed technology, but the Company is planning to pursue further clinical trials.
Also the Company acquired a wholly owned subsidiary. Advanced Influenza Technologies Inc (AITI) which has licensed a portfolio of patents from the University of Massachusetts for the development of a family of plasmid-DNA products to protect human subjects against several strains of influenza (the flu). The University has until 1 year from the effective date of the contract to manufacture, successfully test, and deliver to AITI three "seeds" that can be used for the commercial manufacturing of plasmid-DNA products or, in the alternative, a single polyvalent product, depending upon what the FDA might require. In the event the University fails to make timely delivery of these seeds, AITI could then abandon the project with no further financial obligations or could continue with a different timeline.

CytoDyn is also negotiating with Kings College in London, England for the formulation of Formaxycin(TM) as a topical dermatological product to improve the appearance of human skin by eliminating dysplastic conditions.

On October 27, 2003, Rexray changed its name to CytoDyn, Inc.

Acquisition Agreement

On October 28, 2003, Rexray, the former Securities and Exchange Commission ("SEC") Registrant, entered into an Acquisition Agreement (the "Agreement") with CytoDyn of New Mexico, Inc. ("CytoDyn NM"), a company incorporated under the laws of New Mexico on June 4, 1994. Under the terms of the Agreement, Rexray agreed to acquire some of the assets of CytoDyn NM in exchange for 5,362,640 shares of its common stock. Following the acquisition, the former shareholders of CytoDyn NM held approximately 85.8 percent of the Company's outstanding common stock, resulting in a change in control. However, for accounting purposes, the acquisition has been treated as a recapitalization of CytoDyn NM, with Rexray the legal surviving entity. Since Rexray had minimal assets and no operations, the recapitalization has been accounted for as the sale of 890,000

shares of CytoDyn NM common stock for the net assets of Rexray. Therefore, the historical financial information prior to the date of the reverse business acquisition is the financial information of CytoDyn NM.

Prior to the Agreement, both Rexray and CytoDyn NM had insignificant operations and were not devoting efforts to establishing a business. Following the Agreement, the Company began devoting substantially all efforts to establishing a new business, but planned principal operations have not yet commenced. As a result, the Company's inception into the development stage has been established at October 28, 2003 and, in accordance with SFAS No. 7, the accompanying financial statements report cumulative financial information from the date of its inception into the development stage.

Under the terms of the Agreement, CytoDyn NM:

- Assigned the patent license agreement between CytoDyn NM and Allen D. Allen covering United States patent numbers 5424066, 5651970, and 6534057, and related foreign patents and patents pending, for a method of treating HIV disease with the use of monoclonal antibodies;
- Assigned its trademarks, CytoDyn and Cytolin, and related trademark symbol; and
- Paid $10,000 in cash

In consideration for the above, the Registrant:

- Effected a one-for-two reverse split of its common stock;
- Issued 5,362,640 shares of its common stock to the shareholders of CytoDyn NM;
- Amended its Articles of Incorporation to change its name to CytoDyn, Inc.; and
- Accepted $161,578 in liabilities related to the assigned assets

Going Concern

The 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 financial statements, the Company is currently in the development stage with losses for all periods presented. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability 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 medical treatment, obtain FDA approval, outsource manufacturing of the treatment, and ultimately to attain profitability. The Company intends to seek additional funding through equity offerings to fund its business plan. There is no assurance that the Company will be successful.

Use of Estimates

The preparation of financial statements in accordance with generally accepted

accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less when acquired, to be cash equivalents. The Company had no cash equivalents at May 31, 2006.

Furniture, Equipment and Depreciation

Furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally 3 to 7 years. Maintenance and repairs are charged to expense as incurred and major improvements or betterments are capitalized. Gains or losses on sales or retirements are included in the statement of operations in the year of disposition.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of any long-lived assets under the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying value or fair value, less costs to sell.

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Research and Development

Research and development costs are expensed as incurred.

Earnings (Loss) per Common Share

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares (the denominator) for the period. The computation of diluted earnings per share

is similar to basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

At May 31, 2006, there was no variance between basic and diluted loss per share as there were no potentially dilutive common shares outstanding.

Financial Instruments

At May 31, 2006, the fair value of the Company's financial instruments approximate fair value due to the short-term maturity of the instruments.

Stock-based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's stock and the exercise price. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123. SFAS 123 requires the fair value based method of accounting for stock issued to non-employees in exchange for services.

Companies that elect to use the method provided in APB 25 are required to disclose pro forma net income and pro forma earnings per share information that would have resulted from the use of the fair value based method. The Company has elected to continue to determine the value of stock-based compensation arrangements under the provisions of APB 25. Pro forma disclosures are included in Note 6.

Recent accounting pronouncements

In November 2004, FASB issued FASB Statement No. 151, Inventory Costs , which amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials by requiring those items to be recognized as current period charges. Additionally, FASB Statement No. 151 requires that fixed production overheads be allocated to conversion costs based on the normal capacity of the production facilities. The new standard is effective prospectively for inventory costs incurred in fiscal years beginning after June 15, 2005. We will adopt the FASB Statement No. 151 on January 1, 2006, and we do not expect its adoption to have a material effect on our financial position, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29." This Statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect application of SFAS No. 153 to have a material affect on its financial

statements.

In December 2004, the FASB issued FASB Statement No. 123(R), Share-Based Payment, which is a revision to FASB Statement No. 123, Accounting for Stock-Based Compensation (FASB 123). FASB Statement No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. We adopted the fair value based method of accounting for share-based payments effective June 1, 2006 using the retroactive restatement method described in FASB Statement No. 148, Accounting for Stock-Based Compensation -- Transition and Disclosure. Currently, we use the Black-Scholes valuation model to estimate the value of stock options granted to employees. We expect to adopt FASB Statement No. 123(R) on June 1, 2006 and expect to apply the modified prospective method upon adoption. The modified prospective method requires companies to record compensation cost beginning with the effective date based on the requirements of FASB Statement No. 123(R) for all share-based payments granted after the effective date. All awards granted to employees prior to the effective date of FASB Statement No. 123(R) that remain unvested at the adoption date will continue to be expensed over the remaining service period in accordance with FASB 123. We are still in the process of determining the impact that the adoption of Statement No. 123(R) will have on our financial position, results of operations or cash flows.

In June 2005, the FASB ratified the consensus reached in EITF Issue No. 05-5, "Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)". EITF Issue No. 05-5 addresses the timing of recognition of salaries, bonuses and additional pension contributions associated with certain early retirement arrangements typical in Germany (as well as similar programs). The Task Force also specifies the accounting for government subsidies related to these arrangements. EITF Issue No. 05-5 is effective in fiscal years beginning after December 15, 2005. The adoption of EITF Issue No. 05-5 is not expected to have a material impact on our financial position, results of operations or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes , which is effective for fiscal years beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of the fiscal year, provided an enterprise has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. FASB Interpretation No. 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition The adoption of FASB Interpretation No. 48 is not expected to have a material impact on our financial position, results of operations or cash flows.

We have determined that all other recently issued accounting pronouncements will not have a material impact on our financial position, results of operations or cash flows or do not apply to our operations.

(2) Property and Equipment

Property and equipment are as follows at May 31, 2006:

Equipment	$ 2,816
Furniture	1,722
Total	4,538
Less accumulated depreciation...	(2,204)
Net property and equipment...	$ 2,334

Depreciation expense for 2006 was $2,204

(3) Intangible Assets

Intangibles are as follows at May 31, 2006:

	Website
Cost	$ 2,900
Less accumulated amortization...	(1,772)
Net intangibles	$ 1,128

Estimated annual amortization expense at May 31, 2006:

Fiscal year ended	
5/31/2007	967
5/31/2008	161

Amortization expense for 2006 was $967.

(4) 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 matured one year from the date of the note. On August 29, 2005, the Company extinguished the outstanding promissory notes and related accrued interest with the issuance of 160,110 shares of its common stock and payment of $3,189 representing $3,172 in principal and accrued interest and $17 in lieu of fractional shares.

Convertible Note Payable

During the year ended May 31, 2006, the Company issued convertible promissory notes and warrants to purchase common stock to individuals in exchange for proceeds totaling $509,500. The notes bear interest at five percent per annum

and mature in January and February 2007. Principal and accrued interest are payable in any combination of cash and common stock of the Company at the option of the lender. The Company can repay principal and accrued interest with common stock at the rate of $1.25 per share. Accrued interest on the notes totaled $5,267 at May 31, 2006.

The warrants to purchase common stock which accompanied the convertible promissory notes are exercisable at $2.50 per share, vest immediately, and expire in October 2010. Pursuant to APB No. 14, the Company valued the warrants at their relative fair value of $274,950. To recognize the relative fair value of the warrants, the Company discounted the notes and increased additional paid in capital in the financial statements. The discount is amortized over the term of the notes.

Pursuant to SFAS 133, options embedded in contracts containing the price of a specific equity instrument are not clearly and closely related to an investment in an interest-bearing note and the embedded derivative must be separated from the host contract. As a result, the Company bifurcated the option resulting from the conversion feature and classified it as a derivative liability pursuant to SFAS 133. The following table presents the allocation of proceeds from the financing:

Principal balance of convertible notes	$ 509,500
Relative fair value of warrants	(274,950)
Discount on relative fair value of debt	(234,550)
Amortization of discount	105,331
Debt converted	(437,500)
Unamortized discount on notes converted	356,032
Carrying value at June 30, 2006	$ 23,863

During May 2006, convertible notes totaling $437,500 were converted to 350,000 shares of common stock. The Company recognized a loss on debt extinguishment in the amount of $356,032.

(5) Derivative Financial Instruments

The Company generally does not use derivative instruments to hedge exposures to cash-flow risks or market-risks that may affect the fair values of its financial instruments. However, certain other financial instruments, such as embedded conversion features which are not clearly and closely related to the debt host contract, are classified as derivative liabilities. Such financial instruments are initially recorded at fair value and subsequently adjusted to fair value at the close of each reporting period.

As of May 31, 2006, the derivative liability is composed of the following:

		Number of Shares Derivative Liability Can Be Settled
Embedded conversion feature	$ 75,456	57,600

A derivative loss in the amount of $355,590 was recognized immediately and a derivative gain in the amount of $514,684 was recognized May 31, 2006.

(6) Related Party Transactions

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; on August 31, 2005, an officer advanced the Company $197; and on January 4, 2006, an officer advanced the company $18,000. Management plans to repay the notes through cash payments, issuance of the Company's common stock, or a combination thereof. The balance due of $71,375 remained unpaid at May 31, 2006 and is included in the accompanying condensed financial statements as "Indebtedness to related parties".

A former director has provided legal services to the Company over the past several years. As of May 31, 2005, the Company owed the former director $87,185 for legal services. During the year ended May 31, 2006, the Company incurred an additional $13,800 in legal services and repaid the former director $30,000 and extinguished $24,000 by issuing 60,000 options to purchase the Company's common stock at $2.28 per share. The remaining balance of $46,985 is included in the accompanying financial statements as "Indebtedness to related parties". As of May 31, 2006, no arrangements had been made for the Company to repay the balance of this obligation. The Company anticipates that the former director will continue to provide legal services in the future.

The Company's former 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 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. The Company issued the above-referenced 83,122 non-qualified stock options on March 20, 2006.

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 $275,000 is included in the accompanying financial statements as "Indebtedness to related parties".

(7) Shareholders' Equity

Preferred Stock

The Board of Directors is authorized to issue shares of preferred stock in series and to fix the number of shares in such series as well as the designation, relative rights, powers, preferences, restrictions, and limitations of all such series. The Company had no preferred shares issued and outstanding at May 31, 2006.

Common Stock Sales

The Company filed a Registration Statement on Form SB-2 with the SEC to offer 450,000 common shares for sale 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 $189,550, after deducting offering costs totaling $27,867.

Common Stock for Services

During the year ended May 31, 2006, the Company issued 1,000 restricted common shares to an individual for services performed in September 2005. The Company valued the stock at the price it sold its shares at its public offering and recognized $750 as stock-based compensation.

During the year ended May 31, 2006, the Company issued 142,857 restricted common shares to a public relations company in accordance with an agreement to perform services over the following year. The Company valued the shares at the bid price on the date the agreement was executed in the amount of $250,000, of which $86,473 was recognized as stock-based compensation and $163,527 is included in prepaid expenses.

During the year ended May 31, 2006, the Company issued 40,000 restricted common shares to a consulting company in accordance with an agreement to perform services over the following year. The Company valued the shares at the open price on the date the agreement was executed in the amount of $120,000, of which $17,753 was recognized as stock-based compensation and $102,247 is included in prepaid expenses.

Common Stock Awards

During the year ended May 31, 2004, the Company committed to grant to its financial representative, J.P. Turner & Co. and Max O. Gould, an employee of J.P. Turner & Co., warrants to purchase 426,000 shares of the Company's common stock. The warrants carry an exercise price of $.30 per share, vest on the date of grant and expire after five years from the date of grant. The warrants were granted on November 25, 2004. On September 22, 2005, warrants to purchase 94,500 shares of the Company's common stock at $.30 per share were exercised. The Company received proceeds of $28,350.

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The Company's common stock had no traded market value on the date of grant. The market value of the stock was determined to be $.30 per share based on contemporaneous sales of common stock to unrelated third party investors. The weighted average exercise price and weighted average fair value of these warrants as of November 30, 2004 were $0.30 and $0.028, respectively.

The fair value for the warrants granted during the year ended May 31, 2005 was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	2.00%
Dividend yield	0.00%
Volatility factor	0.00%
Weighted average expected life	5 years

During the year ended May 31, 2006, the Company issued warrants to purchase 407,600 shares of the Company's common stock at $2.50 per share in conjunction with its issuance of convertible debt. (See Note 4, above.) The Company recognized the relative fair value of the warrants in the amount of $274,950 in additional paid in capital.

On March 20, 2006, the Company issued non-qualifying options to purchase 200,000 shares of its common stock at $2.28 per share to consultants. The options vested immediately and expire in ten years. The Company valued the options at $2.19 per share using the Black-Scholes option pricing model and recognized $109,614 as stock-based compensation. The Company also issued non-qualifying options to purchase 60,000 shares of its common stock at $2.28 per share to extinguish $24,000 debt to a related party. (See Note 5, above.)

On March 20, 2006, the Company issued non-qualifying options to purchase 340,000 shares of its common stock at $2.28 per share to directors and consultants. Twenty-five percent of the options vested immediately and the balance vest 1/48 per month over four years. The Company valued the options at $2.19 per share using the Black-Scholes option pricing model and recognized $209,648 as stock-based compensation.

On March 20, 2006, the Company issued non-qualifying options to purchase 83,122 shares of the Company's common stock at $0.75 per share to a related party. (See Note 5, above.) The options vested immediately. The Company valued the options at $160,425 and recognized $98,084 as stock-based compensation and $62,341 as debt reduction.

On May 15, 2006, the Company issued non-qualifying options to purchase 50,000 shares of its common stock 25,000 at $1.96 per share and 25,000 at $2.28 to directors. Twenty-five percent of the options vested immediately and the balance vest 1/48 per month over four years. The Company valued the options at $1.88 per share using the Black-Scholes options pricing model and recognized $15,230 as stock-based compensation.

The fair value for the warrants granted during the year ended May 31, 2006 was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	4.66%

Dividend yield.....	0.00%
Volatility factor.....	72.30%
Weighted average expected life.....	10 years

Stock Options - Employees

During May 2004, the Company granted 150,000 common stock options to an officer with exercise prices ranging from $.50 to $1.50 per share. The Company's common stock had no traded market value on the date of grant. The market value of the stock was determined to be $.30 per share base on contemporaneous sales of common stock to unrelated third party investors. The weighted average exercise price and weighted average fair value of these options as of May 31, 2004 were $1.00 and $.-0-, respectively. 50,000 options vest on May 10, 2005, an additional 50,000 options vest on May 1, 2006, and the final 50,000 options vest on May 1, 2007.

On March 20, 2006, the Company granted incentive stock options to purchase 85,000 shares of the Company's common stock with exercise prices ranging from $2.68 to $2.95 per share. The Company's common stock traded at $2.68 per share on the date of grant. The Company valued the shares at their intrinsic value pursuant to APB No. 25, recognizing $-0- stock-based compensation.

Pro forma information regarding net income and earnings per share is required by SFAS 123 as if the Company had accounted for its granted stock options under the fair value method of that Statement. The fair value for the options granted during the fiscal year ended May 31, 2004 was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate.....	3.00%
Dividend yield.....	0.00%
Volatility factor.....	0.00%
Weighted average expected life.....	3 years

The fair value for the options granted during the fiscal year ended May 31, 2006 was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate.....	4.66%
Dividend yield.....	0.00%
Volatility factor.....	72.30%
Weighted average expected life.....	10 years

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options prior to its public offering had characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options. The options granted in 2004 were determined to have $-0- fair value. The Company has presented the pro forma net loss and pro forma basic and diluted

loss per common share using the assumptions noted above.

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	For the Years Ended May 31,		October 28, 2003 (Inception) through
	2006	2005	May 31, 2006
Net loss, as reported	$ (1,481,305)	$ (777,083)	$ (2,596,432)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	--	--	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(50,909)	--	--
Proforma net income	$ (1,532,214)	$ (777,083)	$ (2,596,432)
Basic and diluted earnings per share as reported	$ (0.17)	$ (0.12)	
Basic and diluted earnings per share proforma	$ (0.18)	$ (0.12)	

The following schedule summarizes the changes in the Company's outstanding stock awards:

	Awards Outstanding	Awards Exercisable	Awards Exercisable	Weighted Average
	Number of Shares	Number of Shares	Exercise Price Per Share	Exercise Pric Per Share
Balance at May 31, 2005.....	576,000	476,000	$0.30 to $1.50	$ 0.48
Awards granted.....	1,050,722	726,510	$0.75 to $2.50	$ 2.72
Awards vested.....	-	50,000	$1.00	$ 1.00
Awards exercised.....	(94,500)	(94,500)	$0.30	$ (0.30
Awards cancelled/expired...	-	-	-	$ -
Balance at May 31, 2006.....	1,532,222	1,158,010	$0.30 to $2.50	$ 1.97

(8) Income Taxes

A reconciliation of the U.S. statutory federal income tax rate to the effective tax rate is as follows:

	2006	2005
U.S. statutory federal graduated rate....	34.00%	34.00%
State income tax rate, net of federal benefit.....	3.06%	3.06%
Net operating loss for which no tax benefit is currently available.....	(37.06%)	(37.06%)
	0.00%	0.00%

At May 31, 2006, federal and state deferred tax assets consisted of a net tax asset of $534,985, which was fully allowed for in the valuation allowance of $534,985. The valuation allowance offsets the net deferred tax asset for which there is no assurance of recovery. The change in the valuation allowance for the years ended May 31, 2006 and 2005 totaled $534,985 and $287,954. The current tax benefits also totaled $534,985 and $287,954 for the years ended May 31, 2006 and 2005. The net operating loss carryforward expires through the year 2026.

The valuation allowance will be evaluated at the end of each year, considering positive and negative evidence about whether the deferred tax asset will be realized. At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required.

Should the Company undergo an ownership change as defined in Section 382 of the Internal Revenue Code, the Company's tax net operating loss carryforwards generated prior to the ownership change will be subject to an annual limitation, which could reduce or defer the utilization of these losses.

(9) Commitments and Contingencies

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.

In connection with that settlement, Mr. Lewis and Maya LLC were awarded by the Los Angeles Superior Court attorneys' fees in the amount of approximately $150,000. We have appealed the Court's order. The matter has not yet been briefed. Management believes we have a strong basis to appeal. This judgement has been accrued on the accompanying financial statements.

(10) General and Administrative Expenses

General and administrative expenses consist of the following:

	For The Years Ended May 31,	
	2006	2005
Salaries and payroll taxes.....	$ 213,295	$ 154,879
Legal	182,412	116,801
Consulting	40,686	--
Other professional fees	15,076	35,117
Patent fees	28,997	18,299
Insurance	41,810	36,234
Office, travel, and other	97,288	12,012
	$ 619,564	$ 373,342

(11) Litigation

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"), intervened. Since CytoDyn expects to make a new cell bank in any event, this action is opposed because it is one part of an interstate scheme or artifice to convert our property. The Company's Response:

The Company has a superior right to the Cell-Bank, and the Company intends to litigate the matter vigorously..

Expected Outcome:

We cannot express judgment regarding the outcome of the case or the probable ultimate liability, if any, to be incurred by the Company. However, 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. Because of uncertain consequences resulting from the actions of these rogue Amerimmune Inc. employees, Symbion Research International is acting to remedy the situation. The former employees have filed two U.S. patent applications and several foreign patent applications based on a derivative international patent application. Symbion Research International intends 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 of services performed. Symbion prevailed in that suit and the Ventura Court awarded title to all data and additional intellectuial property developed by Symbion during its relationship with Amerimmune to Symbion. This additional intellectual property is the subject matter of the patent applications filed by the former employees of ex-licensee Amerimmune.

Maya LLC v. CytoDyn, et al

Superior Court of Los Angeles Van Nuys Case # EC041590

Maya LLC filed an action in Van Nuys, California alleging a smorgasbord of complaints against CytoDyn and two of its officers, some of which have been dismissed on demurrer without leave to amend, some of which can be amended, and some of which have been sustained but with a request from Maya's attorney that CytoDyn's attorneys agree to an amended complaint. Management believes that these events reflect a retaliatory and frivolous action on the part of Maya. Although the outcome of litigation is uncertain, CytoDyn's in-house counsel believes an outcome unfavorable to CytoDyn is highly unlikely .

(12) Subsequent Events

On July 17, 2006 we acquired Advanced Influenza Technologies, Inc. (AITI) as a wholly owned subsidiary. AITI has licensed a portfolio of patents from the University of Massachusetts for the development of a family of plasmid-DNA products to protect human subjects against several strains of influenza (the

flu). The University has until [1 year from the effective date of the contract--see and attach contract with Utek] to manufacture, successfully test, and deliver to AITI three "seeds" that can be used for the commercial manufacturing of plasmid-DNA products or, in the alternative, a single polyvalent product, depending upon what the FDA might require. In the event the University fails to make timely delivery of these seeds, AITI could then abandon the project with no further financial obligations or could continue with a different timeline.