NEUROLOGIX INC/DE
Form 10QSB
May 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarter ended March 31, 2007

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 000-13347

NEUROLOGIX, INC.
(Exact name of Small Business Issuer in its charter)

DELAWARE	06-1582875
(State or other jurisdiction of Incorporation or organization)	I.R.S. Employer Identification No.)
ONE BRIDGE PLAZA, FORT LEE, NEW JERSEY	07024
(Address of principal executive offices)	
(201) 592-6451	
(Issuer's telephone number)	
N/A	
(Former name, former address and former fiscal year, if changed since last report)	

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

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X].

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

At May 11, 2007 there were outstanding 26,542,924 shares of the Registrant's Common Stock, $.001 par value.

Transitional Small Business Disclosure Format: Yes [ ] No [X].

PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

Item 1 - Financial Statements

NEUROLOGIX, INC.
(A Development Stage Company)
CONDENSED BALANCE SHEET
(UNAUDITED)
(Amounts in thousands, except share and per share data)

	March 31, 2007
ASSETS	
Current assets:	
Cash and cash equivalents	$9,305
Prepaid expenses and other current assets	278
Total current assets	9,583
Equipment, less accumulated depreciation of $352	163
Intangible assets, less accumulated amortization of $89	530
Other assets	8
Total Assets	$10,284
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	$848
Total liabilities	848

Commitments and contingencies	
Stockholders' equity:	
Preferred stock; 5,000,000 shares authorized	
Series A - Convertible, $.10 par value; 300,000 shares designated, 645 shares issued and outstanding with an aggregate liquidation preference of $645	-
Series B - $.10 par value; 4,000,000 shares designated, no shares issued and outstanding	-
Series C - Convertible, $.10 par value; 700,000 shares designated, 397,595 shares issued and outstanding with an aggregate liquidation preference of $13,000,111	40
Common Stock:	
$.001 par value; 60,000,000 shares authorized, 26,542,924 issued and outstanding	27
Additional paid-in capital	34,699
Deficit accumulated during the development stage	(25,330)
Total stockholders' equity	9,436
Total Liabilities and Stockholders' Equity	10,284

See accompanying notes to the unaudited condensed financial statements.

NEUROLOGIX, INC.
(A Development Stage Company)
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)
(Amounts in thousands, except share and per share data)

	Three Months Ended March 31,		For the period February 12, 1999 (inception) through March 31, 2007
	2007	2006	
Revenues	$ -	$ -	$ -
Operating expenses:			
Research and development	1,003	547	12,402
General and administrative expenses	656	970	10,767
Loss from operations	(1,659)	(1,517)	(23,169)
Other income (expense):			
Dividend, interest and other income	115	24	871
Interest expense-related parties	-	(1)	(411)
Other income, net	115	23	460
Net loss	$ (1,544)	$ (1,494)	$ (22,709)

Preferred stock dividends	(292)	-
Net loss applicable to common stock	$ (1,836)	$ (1,494)
Net loss applicable to common stock per share, basic and diluted	$ (0.07)	$ (0.06)
Weighted average common shares outstanding, basic and diluted	26,542,924	26,542,924

See accompanying notes to the unaudited condensed financial statements.

NEUROLOGIX, INC. AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2007
(UNAUDITED)
(In thousands, except share and per share amounts)

	Series C Preferred Stock		Common Stock		Additional Paid-in
	Shares	Amount	Shares	Amount	Capital
Sale of common stock to founders	-	$ 0	6,004,146	$ 0	$ 4
Net loss	-	-	-	-	-
Balance, December 31, 1999	-	0	6,004,146	0	4
Net loss	-	-	-	-	-
Balance, December 31, 2000	-	0	6,004,146	0	4
Stock options granted for services	-	-	-	-	9
Common stock issued for intangible assets at $0.09 per share	-	-	259,491	-	24
Net loss	-	-	-	-	-
Balance, December 31, 2001	-	0	6,263,637	0	37
Retirement of founder shares	-	-	(33,126)	-	-
Common Stock issued pursuant to license agreement at $1.56 per share	-	-	368,761	-	577
Private placement of Series B convertible preferred stock	-	-	-	-	2,613
Amortization of unearned compensation	-	-	-	-	-
Net loss	-	-	-	-	-
Balance, December 31, 2002	-	0	6,599,272	0	3,227
Sale of Common Stock	-	-	276,054	-	90
Amortization of unearned compensation	-	-	-	-	-
Net loss	-	-	-	-	-

Balance, December 31, 2003	-	0	6,875,326	0	3,317
Conversion of note payable to Common Stock at $2.17 per share	-	-	1,091,321	1	2,371
Conversion of mandatory redeemable preferred stock to Common Stock	-	-	6,086,991	6	494
Conversion of Series B convertible preferred stock to Common Stock	-	-	1,354,746	1	(1)
Effects of reverse acquisition	-	-	7,103,020	14	5,886
Amortization of unearned compensation	-	-	-	-	-
Stock options granted for services	-	-	-	-	42
Exercise of stock options	-	-	10,000	-	15
Net loss	-	-	-	-	-
Balance, December 31, 2004	-	0	22,521,404	22	12,124
Sale of Common Stock through private placement at an average price of $1.30 per share	-	-	2,473,914	4	3,062
Sale of Common Stock at an average price of $1.752 per share and warrants to Medtronic	-	-	1,141,552	1	2,794
Amortization of unearned compensation	-	-	-	-	-
Stock options granted for services	-	-	-	-	1,305
Exercise of stock options	-	-	406,054	-	127
Net loss	-	-	-	-	-
Balance, December 31, 2005	-	0	26,542,924	27	19,412
Sale of Preferred Stock through private placement at an average price of $35.00 per share	342,857	34	-	-	11,578
Fair value of beneficial conversion rights issued in connection with issuance of Series C PreferredStock	-	-	-	-	2,621
Preferred Dividend and accretion of fair value of beneficial conversion charge	25,298	3	-	-	(3)
Employee share-based compensation expense	-	-	-	-	1,193
Non-employee share-based compensation	-	-	-	-	83
Reclassification of prior year non-employee compensation to prepaid expenses	-	-	-	-	-
Effects of adoption of SFAS 123R	-	-	-	-	(311)
Net loss	-	-	-	-	-
Balance, December 31, 2006	368,155	$ 37	26,542,924	$ 27	$ 34,573
Preferred dividends issued and accrued	29,440	3	-	-	(3)
Employee share-based compensation expense	-	-	-	-	121

	Series C Preferred Stock		Common Stock		Additional Paid-in
	Shares	Amount	Shares	Amount	Capital
Non-employee share-based compensation	-	-	-	-	8
Net loss	-	-	-	-	-
Balance March 31, 2007	397,595	$ 40	26,542,924	$ 27	$ 34,699

See accompanying notes to the unaudited condensed financial statement

NEUROLOGIX, INC.
(A Development Stage Company)
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Amounts in thousands)

	Three Mon Ended Mar
	2007
Operating activities:	
Net loss	$(1,544)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	23
Amortization	10
Stock options granted for services	-
Impairment of intangible assets	-
Amortization of non-employee share-based compensation	26
Share-based employee compensation expense	121
Non-cash interest expense	-
Changes in operating assets and liabilities	
Decrease in prepaid expenses and other current assets	116
Increase in accounts payable and accrued expenses	119
Net cash used in operating activities	(1,129)
Investing activities:	
Security deposits paid	-
Purchases of equipment	(16)
Additions to intangible assets	(28)
Purchases of marketable securities	-
Proceeds from sale of marketable securities	-
Net cash (used in) provided by investing activities	(44)
Financing activities:	
Proceeds from note payable	-
Borrowings from related party	-
Cash acquired in Merger	-
Merger-related costs	-
Payments of capital lease obligations	-
Proceeds from exercise of stock options	-
Proceeds from issuance of common stock and warrants	-
Proceeds from issuance of preferred stock	-

Net cash (used in) provided by financing activities	-
Net (decrease) increase in cash and cash equivalents	(1,173)
Cash and cash equivalents, beginning of period	10,478
Cash and cash equivalents, end of period	$9,305
Supplemental disclosure of non-cash investing and financing activities:	
Dividends on Series C Preferred Stock paid in preferred shares	$290
Accrued dividends on Series C Preferred Stock	$2
Accretion of fair value of beneficial conversion on preferred stock	-
Issuance of Common Stock to pay debt	-
Reverse acquisition - net liabilities assumed, excluding cash	-
Mandatory redeemable convertible preferred stock converted to Common Stock	-

	Three Mon Ended Mar
	2007
Common stock issued to acquire intangible assets	-
Stock options granted for services	-
Deferred research and development cost resulting from Medtronic Stock Purchase	-
Acquisition of equipment through capital leases	-

See accompanying notes to the unaudited condensed financial statements.

NEUROLOGIX, INC.
(A Development Stage Company)
Notes to Unaudited Condensed Financial Statements
(In thousands, except for share and per share amounts)

(1) Description of Business

Neurologix, Inc. ("Neurologix" or the "Company"), is engaged in the research and development of proprietary treatments for disorders of the brain and central nervous system primarily utilizing gene therapies. These treatments are designed as alternatives to conventional surgical and pharmacological treatments. The Company is a developmental stage company and has not generated any operating revenues.

The Company incurred net losses of $1,544, $1,494 and $22,709 and negative cash flows from operating activities of $1,129, $727 and $17,377 for the three months ended March 31, 2007 and 2006 and for the period from February 12, 1999 (inception) to March 31, 2007, respectively. The Company expects that it will continue to incur net losses and cash flow deficiencies from operating activities for the foreseeable future.

As of March 31, 2007, the Company had cash and cash equivalents and short-term investments in marketable securities of $9,305. Management believes that the Company's current resources will enable it to continue as a going concern through at least March 31, 2008. Although the Company believes that its resources are sufficient to initiate a Phase II clinical trial for Parkinson's disease and to complete a Phase I clinical trial for epilepsy, the Company's resources are not sufficient to allow it to perform all of the clinical trials required for drug approval and marketing for either product. Accordingly, it will, from time to time, continue to seek additional funds through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. The Company does not know whether additional financing will be available when needed, or if available, will be on acceptable or favorable terms to it or its stockholders.

(2) Basis of presentation

The accompanying unaudited condensed financial statements of the Company should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006 (the "10-KSB") filed with the Securities and Exchange Commission (the "SEC") on April 2, 2007. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-QSB and the rules and regulations of the SEC. Accordingly, since they are interim statements, the accompanying financial statements do not include all of the information and notes required by GAAP for complete financial statement presentation. In the opinion of management, the interim financial statements reflect all adjustments consisting of normal, recurring adjustments that are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

(3) Summary of Significant Accounting Policies

(a) Stock-BasedCompensation:

At March 31, 2007 the Company had one active share-based compensation plan available for employee, non-employee director, and consultant grants. Stock option awards granted from this plan are granted at the fair market value on the date of grant, and vest over a period determined at the time the options are granted, ranging from zero to three years, and generally have a maximum term of ten years. Certain options provide for accelerated vesting if there is a change in control (as defined in the plans). When options are exercised, new shares of the Company's common stock (the "Common Stock") are issued.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R "Share-based Payment" ("SFAS No. 123R") for employee stock options and other share based compensation using the modified prospective method. No share-based employee compensation cost had been reflected in net loss prior to the adoption of SFAS No. 123R.

Under SFAS 123R, compensation expense is recognized for awards that are granted, modified or cancelled on or after January 1, 2006 as well as for the portion of awards previously granted that had not vested as of January 1, 2006. Compensation expense for these previously granted awards is being recognized over the remaining service period using the compensation cost calculated based on the same estimate of grant-date fair value previously reported for pro-forma disclosure purposes under FAS 123R. As of March 31, 2007 total unrecognized compensation cost related to stock option awards was approximately $316 and the related weighted-average period over which it is expected to be recognized is approximately 1.31 years.

The amount of compensation expense recognized under FAS 123R during the three months ended March 31, 2007 and 2006 was comprised of the following:

	Three Months Ended March 31, 2007	2006
Research and development	$47	$3
General and administrative	74	118
Share-based compensation expense	$121	$121
Net share-based compensation expenses per basic and diluted common share	$(0.00)	$(0.00)

A summary of option activity as of March 31, 2007 and changes during the three months then ended is presented below:

Options	Shares Subject to Option (000)	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term (years)
Outstanding at January 1, 2007	3,016	$1.50	
Granted	-	-	
Exercised	-	-	
Forfeited or expired	-	-	
Outstanding at March 31, 2007	3,016	$1.50	6.90
Exercisable at March 31, 2007	2,269	$1.47	6.20

There were no options granted during the three months ended March 31, 2007. The weighted-average grant-date fair value of options granted during the three months ended March 31, 2006 was $1.29 and was estimated using the Black Scholes option valuation model.

The fair value of each stock option award is estimated under SFAS No. 123R on the date of the grant using the Black-Scholes option pricing model based on the assumptions noted in the following table.

	Three Months Ended March 31,	
	2007	2006
Expected option term	*	5
Risk-free interest rate	*	4.07%
Expected volatility	*	90.3%
Dividend yield	*	0%

* There were no options granted during the three months ended March 31, 2007.

Expected volatility is based on historical volatility of the Common Stock. The risk-free rate is based on the five year U.S. Treasury security rate. The expected term represents the period that stock-based awards are expected to be outstanding based on the simplified method provided in Staff Accounting Bulletin No. 107 ("SAB 107") which averages an award's weighted average vesting period and expected term for "plain vanilla" share options. Under SAB 107, options are considered to be "plain vanilla" if they have the following basic characteristics: granted "at-the-money"; exerciseability is conditioned upon service through the vesting date; termination of service prior to vesting results in forfeiture; limited exercise period following termination of service; and options are non-transferable and non-hedgeable.

For equity awards to non-employees, the Company also applies the Black-Scholes method to determine the fair value of such investments in accordance with FAS 123R and Emerging Issues Task Force Issue 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods, or Services." The options granted to non-employees are re-measured as they vest and the resulting value is recognized as an expense against our net loss over the period during which the services are received.

(b) Basic and Diluted Net Loss Per Common Share:

Basic net loss per common share excludes the effects of potentially dilutive securities and is computed by dividing net loss applicable to Common Stockholders by the weighted average number of common shares outstanding for the period. Diluted net income or loss per share is adjusted for the effects of convertible securities, options, warrants and other potentially dilutive financial instruments only in the periods in which such effects would have been dilutive.

The following securities were not included in the computation of diluted net loss per share because to do so would have had an anti-dilutive effect for the periods presented:

	March 31,	
	2007	2006
Stock options	3,105,829	2,405,220
Warrants	3,131,585	906,867
Common Stock issuable upon conversion of Series A Convertible Preferred Stock	645	645
Common Stock issuable upon conversion of Series C Convertible Preferred Stock	7,817,870	-

(4) Commitments and Contingencies

Consulting Agreement:

Effective February 23, 2007, the Company entered into a consulting agreement with Martin J. Kaplitt, M.D., the Chairman of the Company's Board of Directors. Under the terms of this agreement, Dr. Martin Kaplitt will provide medical and scientific consulting and advisory services to the Company for a one year period, unless sooner terminated pursuant to its terms. Dr. Martin Kaplitt will receive annual compensation of $85. Dr. Martin Kaplitt served as the Executive Chairman of the Company until February 23, 2007, and now serves as Chairman of the Company's Board of Directors.

Research Agreement:

On March 2, 2007, the Company entered into Amendment No. 2 to the Clinical Study Agreement with Cornell University for its Medical College ("Cornell") to revise the scope of the research to be performed by Cornell. Pursuant to the terms of the amended agreement, the Company must make to Cornell an additional payment of $64, in two equal installments, the first on or about the effective date of the agreement and the second on July 31, 2007.

Operating Lease Agreement:

On November 3, 2006, the Company entered into a lease with Bridge Plaza Realty Associates, LLC ("BPRA") for an additional 703 square feet of office space at One Bridge Plaza, Fort Lee, New Jersey 07024 (the "BPRA Lease"). This lease commenced on April 13, 2007 upon the completion of build out work performed by BPRA and will expire three years thereafter. The lease provides for a base annual rent of approximately $21 for the term of the lease.

In connection with the BPRA Lease, effective February 1, 2008 the Company will rent from BPRA the 1,185 square feet of office space it currently rents from Palisade Capital Securities, LLC, an affiliated company. This lease provides for a base annual rent of $36 through the term of the lease, which expires in March 2010.

(5) Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48 ("FIN 48") "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109") on January 1, 2007. This interpretation was issued to clarify the accounting for uncertainty in the amount of 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 provisions of FIN 48 are effective as of the beginning of 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. Adoption of this new Standard did not have an impact on the Company's financial position, results of operations or cash flows.

Item 2 - Management's Discussion and Analysis or Plan of Operation

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's unaudited financial statements and related notes included in this

quarterly report on Form 10-QSB (this "Quarterly Report") and the audited financial statements and notes thereto as of and for the year ended December 31, 2006 included in the Company's Annual Report on Form 10-KSB filed with the SEC on April 2, 2007. Operating results are not necessarily indicative of results that may occur in future periods.

Business Overview

The Company is a development stage company that is engaged in the research and development of proprietary treatments for disorders of the brain and central nervous system using gene therapy and other innovative therapies. These treatments are designed as alternatives to conventional surgical and pharmacological treatments.

To date, the Company has not generated any operating revenues and has incurred annual net losses. From inception through March 31, 2007, the Company had an accumulated deficit of $25,330, and it expects to incur additional losses for the foreseeable future. The Company recognized net losses of $1,544 for the three months ended March 31, 2007, and $1,494 for the three months ended March 31, 2006.

Since its inception, the Company has financed its operations primarily through sales of its equity and debt securities. From inception through March 31, 2007, the Company received proceeds primarily from private sales of equity and debt securities and from the February 2004 merger (the "Merger") of approximately $24,831 in the aggregate. Although its costs of administration and public company compliance have increased this year, the Company has devoted a significant portion of its capital resources to the research and development of its products.

The Company's primary efforts are directed to develop therapeutic products (i) to meet the needs of patients suffering from Parkinson's disease and (ii) the needs of patients suffering from a type of human epilepsy known as temporal lobe epilepsy or "TLE."

Parkinson's Disease

In October 2006, the Company announced that it had completed its Phase I clinical trial of gene therapy for Parkinson's disease and presented its results for the 12 treated subjects at the Annual Meeting of the Society of Neuroscience in Atlanta. The results indicated that the treatment appears to be safe and well-tolerated in patients with advanced Parkinson's disease, with no evidence of adverse effects or immunologic reaction related to the study

treatment. The trial, in which treatment was confined to only one side of the brain, also yielded statistically significant clinical efficacy and neuro-imaging results.

Since the date of the Merger, the Company has accounted for the direct costs associated with its Parkinson's project, including research fees, license fees and pre-clinical and clinical study costs. For the three months ended March 31, 2007 and 2006, the Company has incurred $87 and $38 of these costs, respectively. The increase is primarily due to increased manufacturing costs related to product to be used in the Company's planned Phase II clinical trial.

Epilepsy

In October 2004, motivated by encouraging rodent studies, the Company entered into an agreement with Universidad Federal de Sao Paolo to commence a non-human primate study for evaluating the toxicity of using its NLX technology in the brain for the treatment of epilepsy. The Company's approach is based on the use of the non-pathogenic AAV vector, delivered using standard neurosurgical techniques. All studies were completed in November 2005 and a detailed analysis of the rodent studies was presented in December 2005. Results showed that Neuropeptide Y (NPY) gene transfer reduces spontaneous seizures in an in vivo model of epilepsy and positively influences the fundamental biological process that leads to a chronically epileptic state.

Since the date of the Merger, the Company has accounted for the direct costs associated with its epilepsy project, including research fees, license fees and pre-clinical and clinical study costs. For the three months ended March 31, 2007 and 2006, the Company has incurred $267 and $1 of these costs, respectively. The increase is primarily due to costs of manufacturing product in 2007 for the Company's planned Phase I clinical trial.

Other Therapies

The Company will also continue its efforts to develop gene therapy for the treatment of other neurodegenerative and metabolic disorders under its research agreements with Cornell and The Ohio State University.

Plan of Operation

Parkinson's Disease

The Company currently plans to conduct a Phase II clinical trial prior to conducting a pivotal trial for its treatment of Parkinson's disease, commencing in the second half of 2007. The Phase II trial will be a multi-center, randomized, controlled study with subjects being treated bi-laterally. The study will be designed, among other things, to further establish the effectiveness and safety of the treatment. The scope and timing of such study will largely depend upon FDA concurrence, the ability to manufacture product on a timely basis, the availability of funding, the availability of the catheter system being developed by Medtronic International, Ltd. ("Medtronic") and other factors.

The Company will also take steps to move toward a pivotal trial for treatment of Parkinson's disease, and hopes to be in a position to file its protocol with the FDA in 2009. The

Company presently estimates that the pivotal trial could be completed in 2011 and the estimated total costs to reach that milestone are expected to be between $20,000 and $30,000.

Epilepsy

The Company also intends to increase its efforts on advancing its product development for the treatment of epilepsy. The Company expects to commence a Phase I clinical trial in the second half of 2007. The Company expects the cost of such trial to amount to approximately $1,000. The scope and timing of such trial will, in large part, depend upon, FDA concurrence and the successful completion of certain license arrangements.

The Company currently expects that, if the project progresses and

certain other conditions are met, it can file for FDA approval for its epilepsy product by 2013, and the estimated total costs to reach that milestone are currently expected to be between $15,000 and $25,000.

The Company has also recently undertaken efforts to develop gene therapy for the treatment of other neurodegenerative and metabolic disorders, including Huntington's disease, with a goal of advancing towards an initial Phase I clinical trial within the next 3 years.

Over the next 12 months, in addition to its normal recurring expenditures, the Company expects to spend approximately: $1,800 in Phase II clinical trial expenses with regard to its Parkinson's treatment; $500 in Phase I clinical trial expenses with regard to its epilepsy product; $1,000 in costs associated with operating as a publicly traded company, such as legal fees, accounting fees, insurance premiums, stock market listing fees and investor and public relations fees; $750 in research and licensing fees; and $300 in expenses in order to scale up its manufacturing capabilities for the supply of product for a Parkinson's pivotal trial.

Results of Operations

Three Months Ended March 31, 2007 Compared to the Three Months Ended March 31, 2006

Revenues. The Company did not generate any operating revenues during the three months ended March 31, 2007 and 2006.

Costs and Expenses.

Research and Development. Research and development expenses increased by $456 during the three months ended March 31, 2007 to $1,003 as compared to $547 during the same period in 2006. The increase is primarily attributable to $310 in costs incurred in 2007 associated with the manufacturing of product to be used in the Company's planned clinical trials in 2007. The increase was also due to $107 in increased personnel costs, primarily as a result of the hiring of Christine V. Sapan, Ph.D., the Company's Chief Development Officer, in July 2006.

General and Administrative. General and administrative expenses decreased by $314 to $656 during the three months ended March 31, 2007, as compared to $970 during the comparable period in 2006. The decrease in 2007 is primarily due to a decrease in corporate

legal fees of $168, as well as decreases in consulting expenses of $94 and recruiting fees of $63.

Other Income (Net). Other income (net) increased by $92 during the three months ended March 31, 2007, over the comparable period of 2006. This increase is primarily attributable to increased interest income earned on funds received by the Company in May 2006 from its private placement of its Series C Preferred Stock.

Liquidity and Capital Resources.

Cash and cash equivalents were $9,305 at March 31, 2007.

The Company is still in the development stage and has not generated any operating revenues as of March 31, 2007. In addition, the Company will continue to incur net losses and cash flow deficiencies from operating activities for the foreseeable future. Management believes that the Company's current resources will enable it to continue as a going concern through at least March 31, 2008.

Although the Company believes that its resources are sufficient to commence a Phase II clinical trial for Parkinson's disease and complete a Phase I clinical trial for epilepsy, the Company's resources are not sufficient to allow it to perform all of the clinical trials required for drug approval and marketing, including a pivotal trial for Parkinson's disease. Accordingly, it will continue to seek additional funds through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. The Company does not know whether additional financing will be available when needed or, if available, will be on acceptable or favorable terms to it or its stockholders.

Net cash used in operating activities was $1,129 for the three months ended March 31, 2007 as compared to $727 during the same period in 2006. The $402 increase in net cash used in operations was primarily due to a $272 decrease in cash provided by changes to working capital in 2007 and larger net loss.

Net cash used in investing activities during the three month period ended March 31, 2007 was $44 as compared to net cash provided by investing activities of $1,582 during the three months ended March 31, 2006. The difference is primarily due to the Company redeeming short term investments in the amount of $1,600 during the three months ended March 31, 2006.

There were no financing activities during the three months ended March 31, 2007. During the three months ended March 31, 2006, cash used in financing activities was $4.

Recent Accounting Pronouncements

No new accounting pronouncement issued or effective during the fiscal quarter has had or is expected to have a material impact on the financial statements.

FORWARD LOOKING STATEMENTS

This document includes certain statements of the Company that may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and which are made pursuant to the Private Securities Litigation Reform Act of 1995. These forward-looking statements and other information relating to the Company are based upon the beliefs of management and assumptions made by and information currently available to the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events, or performance, as well as underlying assumptions and statements that are other than statements of historical fact. When used in this document, the words "expects," "anticipates," "estimates," "plans," "intends," "projects," "predicts," "believes," "may" or "should," and similar expressions, are intended to identify forward-looking statements. These statements reflect the current view of the Company's management with respect to future events and are subject to numerous risks, uncertainties, and assumptions.

Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including, among other things:

- the inability of the Company to raise additional funds, when needed, through public or private equity offerings, debt financings or additional corporate collaboration and licensing arrangements;

- the inability of the Company to successfully commence the Phase II clinical trial for Parkinson's disease or the Phase I for temporal lobe epilepsy; and

Other factors and assumptions not identified above could also cause the actual results to differ materially from those set forth in the forward-looking statements. Additional information regarding factors which could cause results to differ materially from management's expectations is found in the section entitled "Risk Factors" contained in the Company's 2006 Annual Report on Form 10-KSB. Although the Company believes these assumptions are reasonable, no assurance can be given that they will prove correct. Accordingly, you should not rely upon forward-looking statements as a prediction of actual results. Further, the Company undertakes no obligation to update forward-looking statements after the date they are made or to conform the statements to actual results or changes in the Company's expectations.

Item 3 - Controls and Procedures

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's President and Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the most recent period covered by this report. Based on such evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

(b) Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the first quarter of 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6 - Exhibits

See Exhibit Index

16

Signatures

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEUROLOGIX, INC.

May 14, 2007 /s/ John E. Mordock

John E. Mordock
President and Chief Executive Officer
(as Principal Executive Officer)

May 14, 2007 /s/ Marc L. Panoff

Marc L. Panoff
Chief Financial Officer, Secretary and Treasurer
(as Principal Accounting Officer/Principal Financial Officer)

17

EXHIBIT INDEX

Exhibit No.	Exhibit
3.1	Restated Certificate of Incorporation of Neurologix, Inc., dated May 9, 2007.*
31.1	Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer (as Principal Executive Officer).*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer, Secretary and Treasurer (as Principal Accounting Officer/Principal Financial Officer).*
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer, Secretary and Treasurer (as Principal Accounting Officer/Principal Financial Officer).*

* Filed herewith

18