NEUROLOGIX INC/DE
Form 10-Q
May 13, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarter ended March 31, 2010
OR

o **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 Registrant as specified 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, NJ 07024
(Address of principal executive offices)
(201) 592-6451
(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes o No o
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of May 1, 2010, 27,865,010 shares of common stock were outstanding.

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NEUROLOGIX, INC.
(A Development Stage Company)
BALANCE SHEETS
(Amounts in thousands, except share and per share amounts)

	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,484	$ 9,637
Prepaid expenses and other current assets	242	395
Total current assets	6,726	10,032
Equipment, less accumulated depreciation of $644 and $624 at March 31, 2010 and December 31, 2009, respectively	109	129
Intangible assets, less accumulated amortization of $283 and $262 at March 31, 2010 and December 31, 2009, respectively	947	891
Other assets	5	5
Total assets	$ 7,787	$ 11,057
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,515	$ 1,834
Total current liabilities	1,515	1,834
Derivative financial instruments, at estimated fair value warrants	4,203	3,847
Total liabilities	5,718	5,681
Commitments and contingencies		
Stockholders equity:		
Preferred stock; 5,000,000 shares authorized		
Series A Convertible, $0.10 par value; 650 shares designated, 645 shares issued and outstanding at March 31, 2010 and December 31, 2009, with an aggregate liquidation preference of $1		
Series C Convertible, $0.10 par value; 700,000 shares designated, 281,263 shares issued and outstanding at March 31, 2010 and December 31, 2009, with an aggregate liquidation preference of $7,241 and $7,008 at March 31, 2010 and December 31, 2009, respectively	28	28
Series D Convertible, $0.10 par value; 792,100 shares designated, 734,898 shares issued and outstanding at March 31, 2010 and December 31, 2009, with an aggregate liquidation preference of $29,967 and $29,420 at March 31, 2010 and December 31, 2009, respectively	73	73
Common Stock:		

$0.001 par value; 100,000,000 shares authorized, 27,865,010 shares issued and outstanding at each of March 31, 2010 and December 31, 2009	28	28
Additional paid-in capital	56,965	56,775
Deficit accumulated during the development stage	(55,025)	(51,528)
Total stockholders equity	2,069	5,376
Total liabilities and stockholders equity	$ 7,787	$ 11,057

See accompanying notes to financial statements.

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

	Three Months Ended March 31,		For the period February 12, 1999 (inception) through
	2010	2009	March 31, 2010
Revenues	$	$	$
Operating expenses:			
Research and development	1,857	1,409	29,318
General and administrative expenses	1,284	749	20,281
Loss from operations	(3,141)	(2,158)	(49,599)
Other income (expense):			
Dividend, interest and other income		33	1,883
Interest expense related parties			(411)
Change in estimated fair value of derivative financial instruments warrants	(356)	(2,789)	(3,133)
Other expense, net	(356)	(2,756)	(1,661)
Net loss	(3,497)	(4,914)	$ (51,260)
Preferred stock dividends	(771)	(717)	
Net loss applicable to common stock	$ (4,268)	$ (5,631)	
Net loss applicable to common stock per share, basic and diluted	$ (0.15)	$ (0.20)	
Weighted average common shares outstanding, basic and diluted	27,865,010	27,764,058	

See accompanying notes to financial statements.

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NEUROLOGIX, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIENCY)
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2010
(UNAUDITED)
(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Stock		Series C Preferred Stock		Common Stock		Additional		Deficit Accumulated During the	
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Unearned Compensation	Development Stage	Total
Sale of common stock to founders	$ 0		$ 0		6,004,146	$ 0	$ 4	$ 0	$ 0	$ 4
Net loss									(328)	(328)
Balance, December 31, 1999	$ 0		$ 0		6,004,146	$ 0	$ 4	$ 0	$ (328)	$ (324)
Net loss									(1,055)	(1,055)
Balance, December 31, 2000	$ 0		$ 0		6,004,146	$ 0	$ 4	$ 0	$ (1,383)	$ (1,379)
Stock options granted for services							9			9
Common stock issued for intangible assets at $0.09 per share					259,491		24			24
Net loss									(870)	(870)
Balance, December 31, 2001	$ 0		$ 0		6,263,637	$ 0	$ 37	$ 0	$ (2,253)	$ (2,216)
Retirement of founder shares					(33,126)					
Common Stock issued pursuant to license agreement at $1.56 per share					368,761		577	(577)		
Private placement of Series B convertible preferred stock							2,613			2,613
Amortization of unearned								24		24

compensation								
Net loss							(1,310)	(1,310)
Balance, December 31, 2002	$ 0	$ 0	6,599,272	$ 0	$ 3,227	$ (553)	$ (3,563)	$ (889)
Sale of Common Stock			276,054		90	(89)		1
Amortization of unearned compensation						164		164
Net loss							(2,274)	(2,274)
Balance, December 31, 2003	$ 0	$ 0	6,875,326	$ 0	$ 3,317	$ (478)	$ (5,837)	$ (2,998)
Conversion of note payable to Common Stock at $2.17 per share			1,091,321	1	2,371			2,372
Conversion of mandatory redeemable preferred stock to Common Stock			6,086,991	6	494			500
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			5,900
Amortization of unearned compensation						202		202

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NEUROLOGIX, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIENCY)
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2010
(UNAUDITED)
(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Stock Shares	Series D Preferred Stock Amount	Series C Preferred Stock Shares	Series C Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Deficit Accumulated During the Development Stage	Total
Stock options granted for services							42	(42)		
Exercise of stock options					10,000		15			15
Net loss									(2,937)	(2,937)
Balance, December 31, 2004		$ 0		$ 0	22,521,404	$ 22	$ 12,124	$ (318)	$ (8,774)	$ 3,054
Sale of Common Stock through private placement at an average price of $1.30 per share					2,473,914	4	3,062			3,066
Sale of Common Stock at an average price of $1.752 per share and warrants to Medtronic					1,141,552	1	2,794			2,795
Amortization of unearned compensation								825		825
Stock options granted for services							1,305	(1,305)		
Exercise of stock options					406,054		127			127
Net loss									(5,345)	(5,345)
Balance, December 31, 2005		$ 0		$ 0	26,542,924	$ 27	$ 19,412	$ (798)	$ (14,119)	$ 4,522
			342,857	34			11,578			11,612

Sale of Preferred Stock through private placement at an average price of $35.00 per share									
Fair value of beneficial conversion rights issued in connection with issuance of Series C Preferred Stock						2,621			2,621
Preferred Dividend and accretion of fair value of beneficial conversion charge			25,298	3		(3)		(2,621)	(2,621)
Employee share-based compensation expense						1,193			1,193
Non-employee share-based compensation						83			83
Reclassification of prior year non-employee compensation to prepaid expenses							487		487
Effects of adoption of ASC Topic 718						(311)	311		
Net loss								(7,046)	(7,046)
Balance, December 31, 2006		$ 0	368,155	$ 37	26,542,924	$ 27	$ 34,573	$ 0	$ (23,786)	$ 10,851
Sale of Series D Preferred Stock through private placement at an average price of $35.00 per share	428,571	43					14,727			14,770

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NEUROLOGIX, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIENCY)
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2010
(UNAUDITED)
(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Stock		Series C Preferred Stock		Common Stock		Additional		Deficit Accumulated During the	
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Unearned Compensation	Development Stage	Total
Fair value of beneficial conversion rights issued in connection with the issuance of Series D Preferred Stock							2,130			2,130
Preferred Dividend and accretion of fair value of beneficial conversion charge	5,108	1	68,801	7			(8)		(2,130)	(2,130)
Contingent beneficial conversion feature related to Series C Preferred Stock							627		(627)	
Induced conversion of preferred stock in connection with the issuance of Series D Preferred Stock	163,470	16	(230,184)	(23)			(347)		354	
Issuance of Series C Preferred Stock in connection with induced conversion of			93,940	9			2,949		(2,958)	

preferred stock										
Issuance of Common Stock in connection with issuance of Series D Preferred Stock					192,017		192		(192)	
Employee share-based compensation expense							702			702
Non-employee share-based compensation							72			72
Conversion of Series C Preferred Stock to Common Stock			(5,597)		110,052					
Exercise of stock options					787,815	1	590			591
Net loss									(6,817)	(6,817)
Balance, December 31, 2007	597,149	$ 60	295,115	$ 30	27,632,808	$ 28	$ 56,207	$ 0	$ (36,156)	$ 20,169
Sale of Series D Preferred Stock through private placement at an average price of $35.00 per share	142,857	14					4,918			4,932
Fair value of beneficial conversion rights issued in connection with the issuance of Series D Preferred Stock							562			562
Accretion of fair value of beneficial conversion charge									(562)	(562)
Contingent beneficial conversion feature related to Series C Preferred Stock							212		(212)	

Adjustment to preferred dividends accrued	(5,108)	(1)	(3,237)	(1)		2

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NEUROLOGIX, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIENCY)
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2010
(UNAUDITED)
(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Stock		Series C Preferred Stock		Common Stock		Additional Paid-in	Unearned	Deficit Accumulated During the Development	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Compensation	Stage	Total
Employee share-based compensation expense							489			489
Non-employee share-based compensation							3			3
Conversion of Series C Preferred Stock to Common Stock			(6,000)		131,250					
Net Loss									(6,320)	(6,320)
Balance December 31, 2008	734,898	$ 73	285,878	$ 29	27,764,058	$ 28	$ 62,393	$ 0	$ (43,250)	$ 19,273
Employee share-based compensation expense							448			448
Non-employee share-based compensation							185			185
Cumulative effect of adoption of ASC Topic 815-40							(6,252)		5,183	(1,069)
Conversion of Series C Preferred Stock to Common Stock			(4,615)	(1)	100,952		1			
Net Loss									(13,461)	(13,461)
	734,898	$ 73	281,263	$ 28	27,865,010	$ 28	$ 56,775	$ 0	$ (51,528)	$ 5,376

Balance December 31, 2009									
Employee share-based compensation expense						171			171
Non-employee share-based compensation						19			19
Net Loss								(3,497)	(3,497)
Balance March 31, 2010	734,898	$ 73	281,263	$ 28	27,865,010	$ 28	$ 56,965	$ 0 $ (55,025)	$ 2,069

See accompanying notes to financial statements.

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

	Three Months Ended March 31,		For the period February 12, 1999 (inception) through
	2010	2009	March 31, 2010
Operating activities:			
Net loss	$ (3,497)	$ (4,914)	$ (51,260)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	20	20	650
Amortization	21	18	423
Gain on redemption of investment			(62)
Stock options granted for services			9
Impairment of intangible assets			199
Amortization of non-employee share-based compensation	29	67	1,736
Share-based employee compensation expense	171	73	3,003
Non-cash interest expense			378
Change in estimated fair value of derivative financial instruments warrants	356	2,789	3,133
Changes in operating assets and liabilities			
Decrease in prepaid expenses and other current assets	143	12	681
(Decrease) increase in accounts payable and accrued expenses	(319)	(24)	1,455
Net cash used in operating activities	(3,076)	(1,959)	(39,655)
Investing activities:			
Security deposits paid			(7)
Purchases of equipment			(645)
Additions to intangible assets	(77)	(62)	(1,539)
Proceeds from redemption of investment			65
Purchases of marketable securities			(12,673)
Proceeds from maturities of marketable securities			12,673
Net cash used in investing activities	(77)	(62)	(2,126)
Financing activities:			
Proceeds from note payable			1,100
Borrowings from related party			2,000
Cash acquired in Merger			5,413
Merger-related costs			(375)

Payments of capital lease obligations						(99)
Proceeds from exercise of stock options						733
Proceeds from issuance of common stock and warrants						5,066
Proceeds from issuance of preferred stock						34,427
Net cash provided by financing activities						48,265
Net (decrease) increase in cash and cash equivalents		(3,153)		(2,021)		6,484
Cash and cash equivalents, beginning of period		9,637		18,906		
Cash and cash equivalents, end of period	$	6,484	$	16,885	$	6,484

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

	Three Months Ended March 31,		For the period February 12, 1999 (inception) through
	2010	2009	March 31, 2010
Supplemental disclosure of non-cash investing and financing activities:			
Dividends on Series C Preferred Stock paid in preferred shares	$	$	$ 1,811
Accrued dividends on Preferred Stock	$ 771	$ 717	$ 6,689
Accretion of fair value of beneficial conversion on preferred stock	$	$	$ 5,313
Accretion of contingent beneficial conversion related on Series C Preferred Stock	$	$	$ 839
Induced conversion of preferred stock in connection with issuance of Series D Preferred Stock	$	$	$ 2,796
Issuance of Common Stock to pay debt	$	$	$ 2,372
Reverse acquisition net liabilities assumed, excluding cash	$	$	$ (214)
Mandatory redeemable convertible preferred stock converted to Common Stock	$	$	$ 500
Common Stock issued to acquire intangible assets	$	$	$ 24
Stock options granted for services	$	$	$ 1,424
Deferred research and development cost resulting from Medtronic Stock Purchase	$	$	$ 795
Acquisition of equipment through capital leases	$	$	$ 106

See accompanying notes to financial statements.

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NEUROLOGIX, INC.
(A Development Stage Company)
Notes to Unaudited 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 has not generated any operating revenues and, accordingly, it is considered to be a development stage company as defined by Accounting Standards Codification (the Codification or ASC) Topic 915.

The Company incurred net losses of $3,497, $4,914 and $51,260 and negative cash flows from operating activities of $3,076, $1,959 and $39,655 for the three months ended March 31, 2010 and 2009 and for the period from February 12, 1999 (inception) to March 31, 2010, respectively. The Company expects that it will continue to incur net losses and cash flow deficiencies from operating activities for the foreseeable future.

The Company had cash and cash equivalents of $6,484 and $9,637 as of March 31, 2010 and December 31, 2009, respectively. Based on its cash flow projections, the Company will need additional financing to carry out its planned business activities and complete its plan of operations through December 31, 2010. At the Company s present level of activities, the Company s cash and cash equivalents are believed, at this time, to be sufficient to fund its operations only into the fourth quarter of this current fiscal year. Accordingly, there is substantial doubt as to the Company s ability to continue as a going concern by the end of its current fiscal year. The Company is currently seeking to raise funds, through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements, sufficient to finance its ongoing operations. 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. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

(2) Basis of Presentation

The accompanying unaudited 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-K for the year ended December 31, 2009 (the 2009 10-K) filed with the Securities and Exchange Commission (the SEC) on March 26, 2010. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information, the instructions to Form 10-Q 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 annual financial statements, but 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. The December 31, 2009 balance sheet information was derived from the audited financial statements as of that date.

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(3) Summary of Significant Accounting Policies

(a) Stock-Based Compensation:

At March 31, 2010, the Company had one active share-based employee compensation plan available for grants to employees, non-employee directors and consultants. Stock option awards granted from this plan are granted at the fair market value on the date of grant, 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 plan) or if there is a termination of employment event for specified reasons set forth in certain employment agreements. When options are exercised, new shares of the Company s common stock, par value $0.001 per share (the Common Stock), are issued.

The Company follows the provisions of ASC Topic 718, Compensation Stock Compensation (ASC Topic 718) for employee stock options and other share-based compensation using the modified prospective method. The Company continues to reflect share-based employee compensation cost in net loss.

The total value of the employee stock option awards is expensed ratably over the service period of the employees receiving the awards. As of March 31, 2010, total unrecognized compensation cost related to stock option awards, to be recognized as expense subsequent to March 31, 2010, was approximately $96, and the related weighted-average period over which it is expected to be recognized was approximately 1 year.

The amount of compensation expense recognized during the three months ended March 31, 2010 and 2009 was comprised of the following:

	Three Months Ended March 31,	
	2010	**2009**
Research and development	$ 22	$ 18
General and administrative	149	55
Employee share-based compensation expense	$ 171	$ 73
Net share-based compensation expenses per basic and diluted common share	$ (0.01)	$ (0.00)

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A summary of option activity as of March 31, 2010 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)	Aggregate Intrinsic Value
Outstanding at December 31, 2009	4,174	$ 1.19	6.30	
Granted				
Exercised				
Forfeited or expired	(140)	1.06		
Outstanding at March 31, 2010	4,034	$ 1.20	6.04	$ 204
Exercisable at March 31, 2010	3,370	$ 1.30	5.63	$ 131

The fair value of each stock option award is estimated on the date of the grant using the Black-Scholes option pricing model. Expected volatility is based on historical volatility of the Common Stock. The risk-free interest rate is based on the U.S. Treasury security rate.

The expected option 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 ; exercisability 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.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 (SAB 110). SAB 110 was effective January 1, 2008 and expresses the views of the staff of the SEC with respect to extending the use of the simplified method, as provided in SAB 107, in developing an estimate of the expected term of plain vanilla share options in accordance with ASC Topic 718. The Company will continue to use the simplified method until it has the historical data necessary to provide a reasonable estimate of expected life in accordance with SAB 107, as amended by SAB 110. For the expected option term, the Company has plain-vanilla stock options and, therefore, used a simple average of the vesting period and the contractual term for options granted subsequent to January 1, 2006 as permitted by SAB 107.

There were no options granted during the three months ended March 31, 2010 or March 31, 2009.

For equity awards to non-employees, the Company also applies the Black-Scholes option pricing model to determine the fair value of such awards in accordance with ASC Topic 718 and the provisions of ASC Topic 505-50, Equity-Based Payments to Non-Employees. The options granted to non-employees are re-measured as they vest and the resulting value is recognized as an adjustment against the Company s net loss over the period during which the services are received.

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(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 stock by the weighted average number of common shares outstanding for the period. Diluted net income or loss per common 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:

	As of March 31,	
	2010	**2009**
Stock options	4,033,833	3,615,833
Warrants	6,839,680	7,441,920
Common Stock issuable upon conversion of Series A Convertible Preferred Stock	645	645
Common Stock issuable upon conversion of Series C Convertible Preferred Stock	6,152,628	6,253,581[1]
Common Stock issuable upon conversion of Series D Convertible Preferred Stock	22,173,636	22,173,636[1]

(1) These amounts are different from those reported in the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2009 because the prior number assumed that the Company would pay dividends owed to the holders of Series C Convertible Preferred Stock and Series D Convertible Preferred Stock with shares of Common Stock. The current number assumes that such payment will be made with cash.

(c) Derivative Instruments:

The Company s derivative liabilities are related to warrants issued in connection with financing transactions and are therefore not designated as hedging instruments. All derivatives are recorded on the Company s balance sheet at fair

value in accordance with current accounting guidelines for such complex financial instruments. (See Note 4 and Note 5).

(d) Financial Instruments and Fair Value:

Effective January 1, 2008, the Company adopted provisions of ASC Topic 820, Fair Value Measurements and Disclosures, as they relate to financial assets and financial liabilities (ASC Topic 820). ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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In estimating the fair value of the Company s derivative liabilities, the Company used the probability-weighted Black-Scholes option pricing model. (See Note 4 and Note 5).

Financial assets with carrying values approximating fair value include cash and cash equivalents. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities.

(e) Recent Accounting Pronouncements:

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 includes new disclosure requirements related to fair value measurements, including transfers in and out of Levels 1 and 2 and information about purchases, sales, issuances and settlements for Level 3 fair value measurements. This update also clarifies existing disclosure requirements relating to levels of disaggregation and disclosures of inputs and valuation techniques. The provisions of ASU 2010-06 are effective for periods beginning after December 15, 2009. The disclosures relating to Level 3 activity are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of ASU 2010-06 did not have a material impact on the Company s financial statements.

(4) Derivative Financial Instruments

Effective January 1, 2009, the Company adopted the provisions of ASC Topic 815-40, Derivatives and Hedging: Contracts in Entity s Own Equity (ASC Topic 815-40). ASC Topic 815-40 clarifies the determination of whether an instrument issued by an entity (or an embedded feature in the instrument) is indexed to an entity s own stock, which would qualify as a scope exception.

Based upon the Company s analysis of the criteria contained in ASC Topic 815-40, all warrants (the Warrants) issued in connection with the issuance of the Series C Convertible Preferred Stock, par value $0.10 per share, and the Series D Convertible Preferred Stock, par value $0.10 per share must now be treated as derivative liabilities on the Company s balance sheet.

Consistent with ASC Topic 815-40 requirements, the Company recognized the cumulative effect of the change in accounting principle to reduce the opening balance of the deficit accumulated during the development stage for fiscal year 2009. The cumulative effect adjustment of $5,183 represents the difference between the amounts recognized on the balance sheet before initial application of ASC Topic 815-40 on January 1, 2009. Additionally, the initial fair value of the Warrants, aggregating $6,252, which was initially recorded as additional paid-in capital upon issuance, was reclassified to long-term liabilities upon the adoption of ASC Topic 815-40. The amounts recognized at initial issuance were determined based on the estimated fair value of the Warrants using a probability-weighted Black-Scholes option pricing model. Prospectively, the Warrants will be re-measured at each balance sheet date based on estimated fair value, and any resultant changes in fair value will be recorded as non-cash valuation adjustments within other income (expense) in the Company s statement of operations. The Company recorded other expense relating to the change in fair value of the Warrants of $356 and $2,789 for the three months ended March 31, 2010 and 2009, respectively.

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The Company estimates the fair value of the Warrants using the probability-weighted Black-Scholes option pricing model. The assumptions used for the three months ended March 31, 2010 and 2009 are noted in the following table:

	Three Months Ended March 31,	
	2010	2009
Expected option term	5 to 7 years	5 to 7 years
Risk-free interest rate	2.55% 3.28%	1.87% 2.28%
Expected volatility	129%	117%
Dividend yield	0%	0%

Expected volatility is based on historical volatility of the Common Stock. The Warrants have a transferability provision and based on guidance provided in SAB 107 for options issued with such a provision, the Company used the full contractual term as the expected term of the Warrants. The risk free interest rate is based on the five-year and seven-year U.S. Treasury security rates.

(5) Fair Value Measurements

The following tables present the Company s liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of March 31, 2010 and December 31, 2009:

Description	**Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance as of March 31, 2010**
Derivative liabilities related to Warrants	$	$	$ 4,203	$ 4,203

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Description	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2009
Derivative liabilities related to Warrants	$	$	$ 3,847	$ 3,847

The following tables set forth a summary of changes in the fair value of the Company s Level 3 liabilities for the three months ended March 31, 2010 and for the year ended December 31, 2009:

Description	Balance at December 31, 2009	Losses	Balance as of March 31, 2010
Derivative liabilities related to Warrants	$ 3,847	$ 356	$ 4,203

Description	Balance at December 31, 2008	Cumulative Effect of the Adoption of ASC Topic 815-40 (See Note 4)	Losses	Balance at December 31, 2009
Derivative liabilities related to Warrants	$	$ 1,070	$ 2,777	$ 3,847

The losses on the derivative liabilities are classified in other expenses as a change in derivative liabilities in the Company s statement of operations. Fair value is determined based on a probability-weighted Black-Scholes option pricing model calculation. (See Note 4).

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At each reporting period, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC Topic 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3.

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(6) Commitments and Contingencies

(a) Consulting and Employment Agreements:

Effective March 10, 2010, John E. Mordock resigned as a director and as President and Chief Executive Officer of the Company, and, in connection therewith, entered into a separation agreement, dated March 1, 2010, with the Company, pursuant to which his employment agreement, dated August 20, 2009, was terminated, except for the provisions thereunder relating to non-competition, non-solicitation, indemnification and confidentiality. Under the separation agreement, the Company agreed to pay or provide to Mr. Mordock the severance benefits contained in his employment agreement. Accordingly, Mr. Mordock has been paid one year of base salary of $275 and one year of health, disability and life insurance premiums of approximately $16. The Company recognized and paid these amounts as compensation expense on the effective date of Mr. Mordock s resignation. Also, all 800,000 stock options held by him have vested and are exercisable until March 10, 2011. The Company recognized a net non-cash compensation charge of $98 on the effective date of Mr. Mordock s resignation as a result of the accelerated vesting of and the extension of the exercise period for Mr. Mordock s stock options.

On March 23, 2010, the Company extended the term of its consulting agreement with Dr. Martin Kaplitt from January 1, 2010, until December 31, 2010, at the annual rate of $125.

On March 23, 2010, the Company approved an extension of its consulting agreement with Dr. Michael Kaplitt from April 30, 2010 until April 30, 2011 at the annual rate of $175. (See Note 7).

(b) Operating Lease Agreement:

On March 31, 2010, the Company amended its lease (the BPRA Lease) with Bridge Plaza Realty Associates, LLC to extend the term through April 30, 2011 at an annual rate of $58. The Company uses the office space covered under the BPRA Lease as its corporate offices.

(7) Subsequent Event

On April 26, 2010, the Company and Dr. Michael Kaplitt executed a letter agreement that extended the Company s consulting agreement with Dr. Michael Kaplitt from April 30, 2010 until April 30, 2011. (See Note 6).

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the unaudited financial statements and accompanying notes in this quarterly report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2009 included in the 2009 10-K. Operating results are not necessarily indicative of results that may occur in future periods. All amounts in this Item 2 are in thousands.

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 transfer and other innovative therapies. These treatments are designed as alternatives to conventional surgical and pharmacological treatments.

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To date, the Company has not generated any operating revenues and has incurred annual net losses. From inception through March 31, 2010, the Company had an accumulated deficit of $55,025, and it expects to incur additional losses for the foreseeable future. The Company recognized net losses of $3,497 for the three months ended March 31, 2010, and $4,914 for the three months ended March 31, 2009.

Since its inception, the Company has financed its operations primarily through sales of its equity and debt securities. From inception through March 31, 2010, the Company received proceeds primarily from private sales of equity and debt securities and from its merger in February 2004 of approximately $44,531 in the aggregate. While the Company will continue to seek additional funds through the sale of its securities to fund its operations, the Company will also seek to obtain strategic collaborations to finance the further development of its Parkinson s product, including the ultimate marketing and sale of such product. (See Liquidity and Capital Resources).

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 the development of a therapeutic product to meet the needs of patients suffering from Parkinson s disease.

In addition to its product for Parkinson s disease, the Company has undertaken efforts to develop a product for the treatment of temporal lobe epilepsy (TLE) but does not anticipate using its current funds for the further development of its TLE product at this time. The Company also has undertaken efforts to develop a product for Huntington s disease and is engaged in pre-clinical activities relating to such product. See Plan of Operation Epilepsy and Plan of Operation Huntington s Disease below.

Plan of Operation

Parkinson s Disease

In October 2006, the Company announced that it had completed its Phase 1 clinical trial for Parkinson s disease. The results of this trial indicated that the treatment, which was confined to only one side of the brain, appeared to be safe and well-tolerated in trial participants with advanced Parkinson s disease, with no evidence of adverse effects or immunologic reaction related to the study treatment. The trial also yielded statistically significant clinical efficacy and neuro-imaging results. The results were published in two leading peer-reviewed medical and scientific journals: the June 23, 2007 issue of the journal *The Lancet* and the online edition of the *Proceedings of the National Academy of Sciences* in November 2007.

In November 2009, the Company completed all 44 of the planned surgeries associated with its Phase 2 clinical trial for the treatment of advanced Parkinson s disease. Half of the trial participants were randomly selected to receive an infusion of the gene-based treatment bilaterally and the other half, the Control Participants , were randomly selected to receive a sterile saline solution. Trial participants are being assessed for safety and for treatment effects by standardized Parkinson s disease ratings at multiple time points both pre and post-procedure. The primary endpoint for the trial will be a clinical assessment of motor function at 6 months using the Unified Parkinson s Disease Rating Scale (UPDRS). All participants in the trial will continue to be monitored for safety for 12 months following their respective surgical procedures. If such initial efficacy results are significantly positive and if the 12-month safety data is acceptable, then those Control Participants who continue to meet all entry, medical and surgical criteria for the trial will be offered the opportunity to participate in the open label arm of the trial to receive a bilateral infusion of the gene-based treatment.

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The Company is currently taking 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 U.S. Food and Drug Administration (the FDA) in 2010 or 2011. The ability of the Company to conduct such a trial will require, among other things, the approval of the FDA and the availability of adequate funds, which, in turn, will be largely dependent upon the safety and efficacy results obtained from its Phase 2 clinical trial. Currently, the Company estimates that the pivotal trial could be completed in 2013 and the estimated total direct costs to reach that milestone are expected to be between $20 million and $40 million.

Epilepsy

In December 2006, the Company submitted an investigational new drug application to the FDA for permission to begin a Phase 1 clinical trial of gene transfer therapy for TLE. The proposed clinical protocol for this study was presented to the National Institute of Health s Office of Biotechnology Activities Recombinant DNA Advisory Committee on September 23, 2004 and was reviewed favorably.

The Company does not, at this time, intend to commit its current funds to continue work on its gene transfer therapy for TLE. As previously stated, the Company intends to focus its efforts and resources on its Parkinson s product.

Huntington s Disease

In November 2005, the Company announced findings from pre-clinical studies that showed that a form of the gene dXIAP may prevent the progression of Huntington s disease.

The Company s development of this therapy for Huntington s disease is currently in the pre-clinical phase. The Company reviewed and analyzed its initial pre-clinical results and determined that additional pre-clinical testing is required prior to seeking regulatory clearance to commence a Phase 1 clinical trial for this therapy.

Other Therapies

The Company will also continue its efforts in developing therapies to treat other neurodegenerative and metabolic disorders, including depression and genetically-based obesity under its research agreements with Cornell University for and on behalf of its Joan & Sanford I. Weill Medical College and Ohio State University.

Future Operating Expenditures

Over the next 12 months, in addition to its normal recurring expenditures, the Company expects to spend approximately $4,100 in Phase 2 clinical trial expenses with regard to its Parkinson s treatment; $1,000 in expenses in order to scale up its manufacturing capabilities for the supply of product for a Parkinson s pivotal trial; $1,000 in costs associated with operating as a publicly traded company, such as legal fees, accounting fees, insurance premiums, investor and public relations fees; and $600 in research and licensing fees.

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Results of Operations

Three Months Ended March 31, 2010 Compared to the Three Months Ended March 31, 2009

Revenues. The Company did not generate any operating revenues in the three months ended March 31, 2010 or in the three months ended March 31, 2009.

Costs and Expenses.

Research and Development. Research and development expenses increased by $448 during the three months ended March 31, 2010 to $1,857 as compared to $1,409 during the comparable period in 2009. The increase was mainly due to a $670 increase in expenses related to the Company s Phase 2 clinical trial for Parkinson s disease, including a (i) $579 increase in fees due to the investigator, surgical sites and brain imaging sites participating in the clinical trial, and (ii) $91 increase in other expenses related to the administration of the clinical trial, including fees to the clinical research organization assisting the Company in overseeing the conduct of the trial. This increase was offset by decreases, from the prior comparable period, including $138 in fees related to license agreements and sponsored research agreements and $77 in other basic research expenses, including laboratory supplies and preclinical research.

General and Administrative. General and administrative expenses increased by $535 to $1,284 during the three months ended March 31, 2010, as compared to $749 during the comparable period in 2009. This increase was primarily due to a $420 increase in employee compensation expense mainly related to a (i) $98 charge for the accelerated vesting of and the extension of the exercise period for John Mordock s stock options in connection with his resignation and (ii) $291 charge for severance paid to Mr. Mordock in connection with his resignation. The increase was also due to a $162 increase in professional fees, including legal fees, strategic advisory fees, accounting fees and investor and public relations fees. These increases were offset by minor decreases in miscellaneous items.

Other Expense, Net. The Company had net other expenses of $356 during the three months ended March 31, 2010, as compared to net other expense of $2,756 during the comparable period in 2009. The decrease is mainly due to a $2,433 decrease in charges incurred for the change in estimated fair value of its derivative liabilities.

Liquidity and Capital Resources

Cash and cash equivalents were $6,484 at March 31, 2010.

The Company is a development stage company and has not generated any operating revenues as of March 31, 2010. In addition, the Company will continue to incur net losses and cash flow deficiencies from operating activities for the foreseeable future.

Based on its cash flow projections, the Company will need additional financing to carry out its planned business activities and complete its plan of operations through December 31, 2010. At the Company s present level of activities, the Company s cash and cash equivalents are believed, at this time, to be sufficient to fund its operations only into the fourth quarter of this current fiscal year. Accordingly, there is substantial doubt as to the Company s ability to continue as a going concern by the end of its current fiscal year.

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Much of the Company s ability to raise additional capital or secure a strategic collaboration for the financing of its continued operations and product development will depend substantially on the successful outcome of its Phase 2 clinical trial for its Parkinson s product. The initial 6-month safety and efficacy results from that trial will not be available until June or July of 2010. Since the Company is unable to fund its operations through December 31, 2010, it is making every effort to secure capital commitments for funds at this time. The Company is also currently seeking to raise funds through corporate collaboration and licensing arrangements in connection with its ongoing and long-term operations. 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.

The Company s independent registered public accounting firm expressed substantial doubt about the Company s ability to continue as a going concern in the audit report on the Company s audited financial statements for the fiscal year ended December 31, 2009 included in the 2009 10-K.

Net cash used in operating activities was $3,076 for the three months ended March 31, 2010 as compared to $1,959 during the comparable period in 2009. The $1,117 increase in net cash used in operations was primarily due to a $2,370 decrease in non-cash expenses, as well as a $164 increase in cash used as a result of changes to working capital in 2010, offset by a $1,417 increase in net loss for the three months ended March 31, 2010.

The Company had net cash used in investing activities of $77 during the three months ended March 31, 2010 as compared to $62 during the three months ended March 31, 2009. Cash used in investing activities relates to additions to intangible assets made by the Company during 2010 and 2009.

The Company had no net cash used in or provided by financing activities during the three months ended March 31, 2010 and 2009.

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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 (the Exchange Act) 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, 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; and
- the inability of the Company to successfully commence and complete all necessary clinical trials for the commercialization of its product to treat Parkinson s disease.

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 2009 10-K. 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. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) *Disclosure Controls and Procedures.* The Company maintains disclosure controls and procedures as required under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act, that are designed to ensure that information required to be disclosed in the Company s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of March 31, 2010, the Company s management carried out an evaluation, under the supervision and with the participation of the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures. Based on the foregoing, its Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of March 31, 2010.

(b) *Changes in Internal Control Over Financial Reporting*. There were no changes in the Company s internal control over financial reporting that occurred during the period covered by this report 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.

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Signatures

Pursuant to the requirements 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 13, 2010	/s/ Clark A. Johnson Clark A. Johnson President and Chief Executive Officer (as Principal Executive Officer)
May 13, 2010	/s/ Marc L. Panoff Marc L. Panoff Chief Financial Officer, Secretary and Treasurer (as Principal Accounting Officer/Principal Financial Officer)

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EXHIBIT INDEX

Exhibit No.	Exhibit
10.1	Letter Agreement dated March 1, 2010 between Neurologix, Inc. and John E. Mordock (filed as Exhibit 10.49 to the Registrant s Annual Report on Form 10-K, dated March 26, 2010, and incorporated herein by reference).
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.**

** Filed herewith