

NEUROLOGIX INC/DE
Form 10-Q
November 12, 2010

Table of Contents

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

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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 No

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 No

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>
		(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 No

As of November 10, 2010, 27,865,010 shares of common stock were outstanding.

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Balance Sheets (Unaudited)</u>	3
<u>Statements of Operations (Unaudited)</u>	4
<u>Statements of Changes in Stockholders' Equity (Deficiency) (Unaudited)</u>	5
<u>Statements of Cash Flows (Unaudited)</u>	9
<u>Notes to Financial Statements (Unaudited)</u>	11
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4. Controls and Procedures</u>	25
<u>PART II. OTHER INFORMATION</u>	25
<u>Item 5. Other Information</u>	25
<u>Item 6. Exhibits</u>	25
<u>Exhibit 10.1</u>	
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	

Table of Contents

NEUROLOGIX, INC.
(A Development Stage Company)
BALANCE SHEETS

(Amounts in thousands, except share and per share amounts)

	September 30, 2010	December 31, 2009
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,004	\$ 9,637
Prepaid expenses and other current assets	158	395
Total current assets	3,162	10,032
Equipment, less accumulated depreciation of \$671 and \$624 at September 30, 2010 and December 31, 2009, respectively	82	129
Intangible assets, less accumulated amortization of \$335 and \$262 at September 30, 2010 and December 31, 2009, respectively	1,004	891
Other assets	5	5
Total assets	\$ 4,253	\$ 11,057
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,838	\$ 1,834
Total current liabilities	1,838	1,834
Derivative financial instruments, at estimated fair value warrants	6,735	3,847
Total liabilities	8,573	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 September 30, 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 September 30, 2010 and December 31, 2009, with an aggregate liquidation preference of \$9,119 and \$7,008 at September 30, 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 September 30, 2010 and December 31, 2009, with an aggregate liquidation preference of \$34,078 and \$29,420 at September 30, 2010 and December 31, 2009, respectively	73	73

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Common Stock:

\$0.001 par value; 100,000,000 shares authorized, 27,865,010 shares issued and outstanding at each of September 30, 2010 and December 31, 2009

	28	28
Additional paid-in capital	57,352	56,775
Deficit accumulated during the development stage	(61,801)	(51,528)
Total stockholders' equity	(4,320)	5,376
Total liabilities and stockholders' equity	\$ 4,253	\$ 11,057

See accompanying notes to financial statements.

Table of Contents

NEUROLOGIX, INC.
(A Development Stage Company)
STATEMENTS OF OPERATIONS
(UNAUDITED)

(Amounts in thousands, except share and per share amounts)

	Nine Months Ended		Three Months Ended		For the period
	September 30,		September 30,		February 12,
	2010	2009	2010	2009	1999
	\$	\$	\$	\$	(inception)
					through
					September 30,
					2010
	\$	\$	\$	\$	\$
Revenues					
Operating expenses:					
Research and development	4,503	5,779	1,104	2,121	31,964
General and administrative expenses	2,884	2,179	901	631	21,881
Loss from operations	(7,387)	(7,958)	(2,005)	(2,752)	(53,845)
Other income (expense):					
Dividend, interest and other income	2	55	1	6	1,885
Interest expense-related parties					(411)
Change in estimated fair value of derivative financial instruments warrants	(2,888)	(2,703)	(300)	(723)	(5,665)
Other (expense) income, net	(2,886)	(2,648)	(299)	(717)	(4,191)
Net loss	(10,273)	(10,606)	(2,304)	(3,469)	\$ (58,036)
Preferred stock dividends	(2,375)	(2,208)	(817)	(757)	
Net loss applicable to common stock	\$ (12,648)	\$ (12,814)	\$ (3,121)	\$ (4,226)	
Net loss applicable to common stock per share, basic and diluted	\$ (0.45)	\$ (0.46)	\$ (0.11)	\$ (0.15)	
Weighted average common shares outstanding, basic and	27,865,010	27,819,156	27,865,010	27,865,010	

diluted

See accompanying notes to financial statements.

Table of Contents

NEUROLOGIX, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH SEPTEMBER 30, 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 Capital		Unearned Development Compensation	Deficit Accumulated During the Stage	Total
	Shares	Amount	Shares	Amount	Shares	Amount					
Sale of common stock to founders		\$ 0		\$ 0	6,004,146	\$ 0	\$ 4	\$ 0	\$ 0	\$ 0	\$ 4
Net loss										(328)	(328)
Balance, December 31, 1999		\$ 0		\$ 0	6,004,146	\$ 0	\$ 4	\$ 0	\$ 0	(328)	\$ (324)
Net loss										(1,055)	(1,055)
Balance, December 31, 2000		\$ 0		\$ 0	6,004,146	\$ 0	\$ 4	\$ 0	\$ 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	\$ 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

Table of Contents

NEUROLOGIX, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH SEPTEMBER 30, 2010
(UNAUDITED)

(Amounts in thousands, except for share and per share amounts)

	Series D		Series C		Common Stock		Additional	Unearned	Development	Total
	Preferred	Preferred	Preferred	Preferred	Shares	Amount	Paid-in	Compensation	Stage	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital			
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
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

Table of Contents

NEUROLOGIX, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH SEPTEMBER 30, 2010
(UNAUDITED)

(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Stock		Series C Preferred Stock		Common Stock		Additional	Unearned	Development	Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Compensation	Stage	Accumulated During the	
Fair value of beneficial conversion rights issued in connection with the issuance of Series D Preferred Stock							2,130				2,130
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											
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

7

Table of Contents

NEUROLOGIX, INC.
(A Development Stage Company)
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH SEPTEMBER 30, 2010
(UNAUDITED)

(Amounts in thousands, except for share and per share amounts)

	Series D		Series C		Common Stock		Additional	Unearned	Development	Deficit	
	Preferred	Preferred	Preferred	Preferred	Common	Common	Paid-in	Compensation	Stage	Accumulated	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Capital			During	
										the	
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)
Balance December 31,	734,898	\$ 73	281,263	\$ 28	27,865,010	\$ 28	\$ 56,775	\$ 0	\$ (51,528)		\$ 5,376

2009

Employee share-based compensation expense											434				434
Non-employee share-based compensation											143				143
Net Loss													(10,273)		(10,273)

Balance**September 30,
2010**

734,898	\$ 73	281,263	\$ 28	27,865,010	\$ 28	\$ 57,352	\$ 0	\$ (61,801)	\$ (4,320)
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See accompanying notes to financial statements.

Table of Contents

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

	Nine Months Ended September 30,		For the period February 12, 1999 (inception) through September 30, 2010
	2010	2009	
Operating activities:			
Net loss	\$ (10,273)	\$ (10,606)	\$ (58,036)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	47	61	677
Amortization	73	61	475
Gain on redemption of investment			(62)
Stock options granted for services			9
Impairment of intangible assets		5	199
Amortization of non-employee share-based compensation	157	179	1,864
Share-based employee compensation expense	434	376	3,266
Non-cash interest expense			378
Change in estimated fair value of derivative financial instruments warrants	2,888	2,703	5,665
Changes in operating assets and liabilities			
Decrease (increase) in prepaid expenses and other current assets	223	(55)	761
(Decrease) increase in accounts payable and accrued expenses	4	351	1,778
Net cash used in operating activities	(6,447)	(6,925)	(43,026)
Investing activities:			
Security deposits paid			(7)
Purchases of equipment		(44)	(645)
Additions to intangible assets	(186)	(166)	(1,648)
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	(186)	(210)	(2,235)
Financing activities:			
Proceeds from note payable			1,100
Borrowings from related party			2,000
Cash acquired in Merger			5,413
Merger-related costs			(375)

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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	(6,633)	(7,135)	3,004
Cash and cash equivalents, beginning of period	9,637	18,906	

Table of Contents

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

	Nine Months Ended September 30,		For the period February 12, 1999 (inception) through September 30, 2010
	2010	2009	
Cash and cash equivalents, end of period	\$ 3,004	\$ 11,771	\$ 3,004
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	\$ 2,375	\$ 2,208	\$ 8,293
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.

Table of Contents

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 \$10,273, \$10,606 and \$58,036 and negative cash flows from operating activities of \$6,447, \$6,925 and \$43,026 for the nine months ended September 30, 2010 and 2009 and for the period from February 12, 1999 (inception) to September 30, 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 \$3,004 and \$9,637 as of September 30, 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 to 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 through the end of this month. In an effort to obtain additional financing, the Company has entered into non-binding letter agreements with certain of its existing stockholders to raise a minimum of \$7.0 million through the issuance of senior secured notes and common stock warrants (the Financing). The notes would carry an annual interest rate of 10%, have an outside maturity date of October 31, 2011, and would be secured by substantially all of the Company's assets, subject to obtaining necessary consents. The Company believes that the proceeds from the Financing will provide it with sufficient time to consummate a strategic transaction or, in the alternative, to raise additional funds to finance the continuing operations and business of the Company. However, the Company does not know if or when the Financing will be consummated and the financial statements do not include any adjustments that may result from the outcome of this uncertainty. If the Financing is not consummated by the end of November 2010, and the Company is unable to obtain alternative funding by the end of November 2010, it is likely that the Company will not be able to continue as a going concern and will have to explore its liquidation options, which may include voluntarily filing for protection under the federal bankruptcy laws.

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 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.

Table of Contents**(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 2009 10-K. 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.

(3) Summary of Significant Accounting Policies**(a) Stock-Based Compensation:**

At September 30, 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 reflects share-based employee compensation expense 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 September 30, 2010, total unrecognized compensation cost related to stock option awards, to be recognized as expense subsequent to September 30, 2010, was approximately \$237, 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 and nine months ended September 30, 2010 and 2009 was comprised of the following:

	Nine Months Ended		Three Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Research and development	\$ 126	\$ 113	\$ 26	\$ 23
General and administrative	308	263	41	48
Share-based compensation expense	\$ 434	\$ 376	\$ 67	\$ 71
Net share-based compensation expenses per basic and diluted common share	\$ (0.02)	\$ (0.01)	\$ (0.00)	\$ (0.00)

Table of Contents

A summary of option activity as of September 30, 2010 and changes during the nine 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	1,015	\$ 0.65		
Exercised				
Forfeited or expired	(582)	2.29		
Outstanding at September 30, 2010	4,607	\$ 0.93	4.99	\$ 1,780
Exercisable at September 30, 2010	3,711	\$ 1.00	4.66	\$ 1,451

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2010 and 2009 was \$0.57 and \$0.52, respectively, and was estimated using the Black-Scholes option pricing model.

The following table sets forth the assumptions used with the Black-Scholes option pricing model in determining stock-based compensation under ASC Topic 718 in 2010 and 2009:

	Nine Months Ended September 30,	
	2010	2009
Expected option term	5-6 years	5-6 years
Risk-free interest rate	2.26%	2.06%
Expected volatility	129%	116%
Dividend yield	0%	0%

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.

Table of Contents

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. 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.

(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:

	Nine Months Ended September 30,	
	2010	2009
Stock options	4,606,833	4,173,833
Warrants	6,535,062	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	6,152,628 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 September 30, 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 on conversion of such shares with shares of Common Stock. The current number assumes that such payment will be made with cash.

Table of Contents

(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.

In estimating the fair value of the Company's derivative liabilities, the Company used a 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.

Table of Contents**(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 \$2,888 and \$2,703 for the nine months ended September 30, 2010 and 2009, respectively. The Company recorded other expense relating to the change in fair value of the Warrants of \$300 and \$723 for the three months ended September 30, 2010 and 2009, respectively.

The Company estimates the fair value of the Warrants using a probability-weighted Black-Scholes option pricing model. The assumptions used for the three and nine months ended September 30, 2010 and 2009 are noted in the following table:

	Three and Nine Months Ended September 30,	
	2010	2009
Expected option term	2.6 to 4.1 years	5 to 7 years
Risk-free interest rate	0.64% - 1.27%	2.31% - 2.93%
Expected volatility	128%	123%
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 three-year, five-year and seven-year U.S. Treasury security rates.

Table of Contents**(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 September 30, 2010 and December 31, 2009:

Description	Quoted Prices in Active Markets for Identical	Significant Other	Significant	Balance as of September 30, 2010
	Assets and Liabilities (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Derivative liabilities related to Warrants	\$	\$	\$ 6,735	\$ 6,735

Description	Quoted Prices in Active Markets for Identical	Significant Other	Significant	Balance as of December 31, 2009
	Assets and Liabilities (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
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 nine months ended September 30, 2010 and for the year ended December 31, 2009:

Description	Balance at December 31, 2009	Losses	Balance as of September 30, 2010
	Derivative liabilities related to Warrants	\$ 3,847	

Table of Contents

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.

(6) Commitments and Contingencies***Threatened Litigation:***

A participant in the Phase 2 clinical trial for Parkinson's disease, through his counsel, is claiming that he was injured during the trial's surgical procedure by receiving a double dose of the drug used in the trial on one side of his brain rather than a bilateral dose of such drug as called for by the trial's protocol. The participant's counsel, by letter dated June 18, 2010, notified certain parties involved in the trial, including the Company, of his client's assertion of injury and other claims regarding the conduct of the clinical trial, and requested a settlement of the matter prior to any litigation. The participant's claimed injury does not represent a serious adverse event, as determined by the monitoring entities that make such determinations, reportable as such to the U.S. Food and Drug Administration (the FDA). The Company has reviewed the matter with its counsel and certain of the parties participating in the trial and has discussed the matter with the participant's counsel. The Company does not believe that the participant's claimed injury is related to the drug used in the trial or to the trial's protocol. The Company believes that the participant's claim against the Company is without merit and, if filed, the Company intends to vigorously defend against such claim.

(7) Subsequent Events***Consulting and Employment Agreements:***

On November 9, 2010 the Company entered into a letter agreement (the Letter Agreement) with Dr. Matthew During. The Letter Agreement amends, effective as of September 30, 2010, a Consulting Agreement dated October 1, 1999, as amended (the Consulting Agreement), by and between the Company and Dr. During. The Letter Agreement extends the term of the Consulting Agreement from September 30, 2010 to September 30, 2011 at the current annual rate of \$175. A copy of the Letter Agreement is attached hereto as Exhibit 10.1.

Table of Contents

On November 9, 2010 the Company approved an extension of its employment agreement with Marc L. Panoff, the Company's Chief Financial Officer, Treasurer and Secretary, from December 4, 2010 until December 4, 2011 at the current annual rate of \$203.

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.

To date, the Company has not generated any operating revenues and has incurred annual net losses. From inception through September 30, 2010, the Company had an accumulated deficit of \$61,801, and it expects to incur additional losses for the foreseeable future. The Company recognized net losses of \$10,273 for the nine months ended September 30, 2010, and \$10,606 for the nine months ended September 30, 2009.

Since its inception, the Company has financed its operations primarily through sales of its equity and debt securities. From inception through September 30, 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. The Company continues to seek additional funds through the sale of its securities to fund its operations. 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.

Table of Contents

Plan of Operation

Parkinson's Disease

In June 2010, the Company announced positive results in its Phase 2 clinical trial of its investigational gene therapy for advanced Parkinson's disease, NLX-P101. This trial was designed to evaluate the safety and efficacy of NLX-P101 in subjects with moderate to advanced Parkinson's disease who were not well-controlled on available medical therapy. Approximately 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 who received NLX-P101 experienced statistically significant and clinically meaningful improvements in off-medication motor scores compared to Control Participants who received sham surgery, measured on the Unified Parkinson's Disease Rating Scale Part 3 (Motor section). The results also demonstrated a positive safety profile for NLX-P101, with no serious adverse events related to the gene therapy or surgical procedure reported. All treated subjects will continue to be monitored for safety for a 12-month period following their surgical procedure. Subject to the availability of adequate funds and the availability of a catheter infusion device, 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.

A participant in the Phase 2 clinical trial for Parkinson's disease, through his counsel, is claiming that he was injured during the trial's surgical procedure by receiving a double dose of the drug used in the trial on one side of his brain rather than a bilateral dose of such drug as called for by the trial's protocol. The participant's counsel, by letter dated June 18, 2010, notified certain parties involved in the trial, including the Company, of his client's assertion of injury and other claims regarding the conduct of the clinical trial, and requested a settlement of the matter prior to any litigation. The participant's claimed injury does not represent a serious adverse event, as determined by the monitoring entities that make such determinations, reportable as such to the U.S. Food and Drug Administration (the FDA). The Company has reviewed the matter with its counsel and certain of the parties participating in the trial and has discussed the matter with the participant's counsel. The Company does not believe that the participant's claimed injury is related to the drug used in the trial or to the trial's protocol. The Company believes that the participant's claim against the Company is without merit and, if filed, the Company intends to vigorously defend against such claim.

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 FDA in 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. 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.

Table of Contents

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

Subject to the receipt of adequate funding, the Company expects to spend, over the next 12 months, in addition to its normal recurring expenditures, approximately \$5,000 in Phase 2 clinical trial expenses with regard to its Parkinson's treatment; \$1,400 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. See Liquidity and Capital Resources.

Results of Operations

Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009

Revenues. The Company did not generate any operating revenues in the three months ended September 30, 2010 or in the three months ended September 30, 2009.

Table of Contents

Costs and Expenses.

Research and Development. Research and development expenses decreased by \$1,017 during the three months ended September 30, 2010 to \$1,104 as compared to \$2,121 during the comparable period in 2009. The decrease was mainly due to a \$920 decrease in expenses related to the Company's Phase 2 clinical trial for Parkinson's disease, as well as a \$125 decrease in process development expenses for large scale manufacturing of the Company's products and infusion devices. These decreases were offset, in part, by increases in miscellaneous research and development expenses.

General and Administrative. General and administrative expenses increased by \$270 to \$901 during the three months ended September 30, 2010, as compared to \$631 during the comparable period in 2009. This increase was due mainly to a \$341 increase in professional fees, including strategic advisory fees, legal fees, accounting fees, investor relations fees and public relations fees, offset by an \$87 decrease in cash and non-cash employee compensation expense.

Other Expense, Net. The Company had net other expense of \$299 during the three months ended September 30, 2010, as compared to net other expense of \$717 during the comparable period in 2009. The change is mainly due to a \$423 decrease in other expense recognized for the increase in estimated fair value of its derivative liabilities during the three months ended September 30, 2010.

Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009

Revenues. The Company did not generate any operating revenues in the nine months ended September 30, 2010 or in the nine months ended September 30, 2009.

Costs and Expenses.

Research and Development. Research and development expenses decreased by \$1,276 during the nine months ended September 30, 2010 to \$4,503 as compared to \$5,779 during the comparable period in 2009. The decrease was primarily due to a \$929 decrease in expenses related to the Company's Phase 2 clinical trial for Parkinson's disease, as well as a \$223 decrease in process development expenses for large scale manufacturing of the Company's products and infusion devices and a \$194 decrease in fees related to license agreements and sponsored research agreements. These decreases were offset by a \$108 increase in cash and non-cash compensation to the Company's researchers and scientific consultants.

General and Administrative. General and administrative expenses increased by \$705 to \$2,884 during the nine months ended September 30, 2010, as compared to \$2,179 during the comparable period in 2009. This increase was primarily due to a \$505 increase in professional fees, including strategic advisory fees, legal fees, accounting fees, investor relations fees and public relations fees, as well as a \$229 increase in cash and non-cash compensation to the Company's employees in 2010. These increases were offset, in part, by decreases in miscellaneous general and administrative expenses.

Other Expense, Net. The Company had net other expense of \$2,886 during the nine months ended September 30, 2010, as compared to net other expense of \$2,648 during the comparable period in 2009. The change is mainly due to other expense of \$185 recognized for the increase in estimated fair value of its derivative liabilities during the nine months ended September 30, 2010. Additionally, the Company earned \$53 less in interest income during the nine months ended September 30, 2010 as compared to the comparable period in 2009.

Table of Contents

Liquidity and Capital Resources

Cash and cash equivalents were \$3,004 at September 30, 2010.

The Company is a development stage company and has not generated any operating revenues as of September 30, 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 to 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 through the end of this month. In an effort to obtain additional financing, the Company has entered into non-binding letter agreements with certain of its existing stockholders to raise a minimum of \$7.0 million through the issuance of senior secured notes and common stock warrants (the Financing). The notes would carry an annual interest rate of 10%, have an outside maturity date of October 31, 2011, and would be secured by substantially all of the Company's assets, subject to obtaining necessary consents. The Company believes that the proceeds from the Financing will provide it with sufficient time to consummate a strategic transaction or, in the alternative, to raise additional funds to finance the continuing operations and business of the Company. However, the Company does not know if or when the Financing will be consummated. If the Financing is not consummated by the end of November 2010, and the Company is unable to obtain alternative funding by the end of November 2010, it is likely that the Company will not be able to continue as a going concern and will have to explore its liquidation options, which may include voluntarily filing for protection under the federal bankruptcy laws.

In June 2010, the Company announced positive results in its Phase 2 clinical trial of its investigational gene therapy for advanced Parkinson's disease, NLX-P101. Given these results, the Company is seeking to raise additional funds to develop further its Parkinson's product as well as to develop its other technologies for the treatment of certain neurological and psychiatric diseases. In this regard, the Company may seek to raise funds through corporate collaborations or licensing arrangements for its Parkinson's product or other technologies. In addition, the Company is pursuing other strategic transactions which are intended to maximize value for the Company and its stockholders. 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 or whether a strategic transaction can be consummated in furtherance of its objectives.

The Company's ability to continue pursuing such corporate collaborations, licensing arrangements and other strategic transactions is contingent upon the consummation of the Financing or the procurement of alternative funds as described above.

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.

Table of Contents

Net cash used in operating activities was \$6,447 for the nine months ended September 30, 2010 as compared to \$6,925 during the comparable period in 2009. The \$478 decrease in net cash used in operations was primarily due to a \$333 decrease in net loss for the nine months ended September 30, 2010, as well as a \$214 increase in non-cash expenses in 2010, offset by a \$69 increase in cash used as a result of changes to working capital in the first nine months of 2010.

The Company had net cash used in investing activities of \$186 during the nine months ended September 30, 2010 as compared to \$210 during the nine months ended September 30, 2009. Cash used in investing activities relates to additions to intangible assets and purchases of equipment made by the Company during the first nine months of each of 2010 and 2009.

The Company had no net cash used in or provided by financing activities during the nine months ended September 30, 2010 and 2009.

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.

Table of Contents

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 September 30, 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 September 30, 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 5. Other Information

On November 9, 2010 the Company entered into a letter agreement (the Letter Agreement) with Dr. Matthew During. The Letter Agreement amends, effective as of September 30, 2010, a Consulting Agreement dated October 1, 1999, as amended (the Consulting Agreement), by and between the Company and Dr. During. The Letter Agreement extends the term of the Consulting Agreement from September 30, 2010 to September 30, 2011 at the current annual rate of \$175,000. The Company is including this disclosure in this Quarterly Report on Form 10-Q in lieu of reporting it on Form 8-K under Item 1.01. A copy of the Letter Agreement is attached hereto as Exhibit 10.1.

Item 6. Exhibits

See Exhibit Index.

Table of Contents

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.

November 12, 2010

/s/ Clark A. Johnson
Clark A. Johnson
President and Chief Executive Officer
(as Principal Executive Officer)

November 12, 2010

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

Table of Contents

EXHIBIT INDEX

Exhibit No.	Exhibit
10.1	Letter Agreement dated November 9, 2010 between Neurologix, Inc. and Dr. Matthew During.**
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