

NEUROLOGIX INC/DE  
Form 10-Q  
August 12, 2008

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 quarter ended June 30, 2008

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  
(State or other jurisdiction of  
incorporation or organization)

06-1582875  
(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 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

Accelerated filer

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Non-accelerated filer (Do not check if a smaller reporting company)  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 August 10, 2008, 27,764,058 shares of common stock were outstanding.

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

|   | June 30,<br>2008<br>(Unaudited) | December 31,<br>2007 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Current assets:   |                                 |                      |
| Cash and cash equivalents   | \$ 21,569                       | \$ 20,157            |
| Prepaid expenses and other current assets   | 312                             | 418                  |
| Total current assets  | 21,881                          | 20,575               |
| Equipment, less accumulated depreciation of \$495 and \$437 at June 30, 2008 and December 31, 2007, respectively  | 178                             | 231                  |
| Intangible assets, less accumulated amortization of \$149 and \$127 at June 30, 2008 and December 31, 2007, respectively  | 707                             | 623                  |
| Other assets  | 5                               | 5                    |
| Total Assets  | \$ 22,771                       | \$ 21,434            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                 |                      |
| Current liabilities:  |                                 |                      |
| Accounts payable and accrued expenses   | \$ 603                          | \$ 1,265             |
| Total liabilities   | 603                             | 1,265                |
| 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 June 30, 2008 and December 31, 2007, with an aggregate liquidation preference of \$1  | -                               | -                    |
| Series C – Convertible, \$0.10 par value; 700,000 shares designated, 291,878 and 295,115 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively, with an aggregate liquidation preference of \$6,180 and \$6,529 at June 30, 2008 and December 31, 2007, respectively   | 29                              | 30                   |
| Series D – Convertible, \$0.10 par value; 792,100 shares designated, 734,898 and 597,149 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively, with an aggregate liquidation preference of \$27,405 and \$22,673 at June 30, 2008 and December 31, 2007, respectively | 73                              | 60                   |
| Common Stock:   |                                 |                      |
| \$0.001 par value; 100,000,000 shares authorized, 27,632,808 issued and outstanding at June 30, 2008 and December 31, 2007  | 28                              | 28                   |
| Additional paid-in capital  | 62,247                          | 56,207               |
| Deficit accumulated during the development stage  | (40,209)                        | (36,156)             |
| Total stockholders' equity  | 22,168                          | 20,169               |

|  |    |        |    |        |
|--|----|--------|----|--------|
| Total Liabilities and Stockholders' Equity | \$ | 22,771 | \$ | 21,434 |
|--|----|--------|----|--------|

See accompanying notes to condensed financial statements.

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

|  | Six Months Ended June 30, |            | Three Months Ended June 30, |            | For the period  |
|--|---------------------------|------------|-----------------------------|------------|---|
|  | 2008                      | 2007       | 2008                        | 2007       | February 12,<br>1999<br>(inception)<br>through June<br>30, 2008 |
| Revenues   | \$ -                      | \$ -       | \$ -                        | \$ -       | \$ -  |
| Operating expenses:  |                           |            |                             |            |   |
| Research and development   | 1,829                     | 2,016      | 747                         | 1,013      | 17,448  |
| General and administrative expenses                              | 1,761                     | 1,606      | 839                         | 950        | 14,957  |
| Loss from operations   | (3,590)                   | (3,622)    | (1,586)                     | (1,963)    | (32,405)  |
| Other income (expense):  |                           |            |                             |            |   |
| Dividend, interest and other income                              | 311                       | 215        | 155                         | 100        | 1,555   |
| Interest expense-related parties                                 | -                         | -          | -                           | -          | (411)   |
| Other income, net  | 311                       | 215        | 155                         | 100        | 1,144   |
| Net loss   | (3,279)                   | (3,407)    | (1,431)                     | (1,863)    | \$ (31,261)   |
| Preferred stock dividends  | (1,230)                   | (590)      | (641)                       | (298)      |   |
| Charge for accretion of beneficial conversion feature            | (562)                     | -          | (562)                       | -          |   |
| Charge for contingent beneficial conversion feature              | (212)                     | -          | (212)                       | -          |   |
| Net loss applicable to common stock                              | \$ (5,283)                | \$ (3,997) | \$ (2,846)                  | \$ (2,161) |   |
| Net loss applicable to common stock per share, basic and diluted | \$ (0.19)                 | \$ (0.15)  | \$ (0.10)                   | \$ (0.08)  |   |
| Weighted average common shares outstanding, basic and diluted    | 27,632,808                | 26,569,639 | 27,632,808                  | 26,596,061 |   |

See accompanying notes to condensed financial statements.

NEUROLOGIX, INC. AND SUBSIDIARY  
(A Development Stage Company)  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)  
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH JUNE 30, 2008  
(UNAUDITED)

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

|   | Series D<br>Preferred<br>Stock |        | Series C<br>Preferred<br>Stock |        | Common Stock |        | Additional<br>Paid-in<br>Capital | Unearned<br>Compensation | Deficit<br>Accumulated<br>During<br>the<br>Development<br>Stage | Total      |
|---|--------------------------------|--------|--------------------------------|--------|--------------|--------|----------------------------------|--------------------------|---|------------|
|   | Shares                         | Amount | Shares                         | Amount | Shares       | Amount |                                  |                          |   |            |
| 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      |
|   | -                              | -      | -                              | -      | -            | -      | -                                | 24                       | -   | 24         |

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|  |   |      |   |      |           |      |          |          |            |            |
|--|---|------|---|------|-----------|------|----------|----------|------------|------------|
| Amortization of unearned 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        |



NEUROLOGIX, INC. AND SUBSIDIARY  
(A Development Stage Company)  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)  
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH JUNE 30, 2008  
(UNAUDITED)

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

|  |   |      |         |      |            |       |           |          |             |          |
|--|---|------|---------|------|------------|-------|-----------|----------|-------------|----------|
| 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 |
| Sale of Preferred Stock through private placement at an average price of \$35.00 per share | - | -    | 342,857 | 34   | -          | -     | 11,578    | -        | -           | 11,612   |
| Fair value of beneficial   | - | -    | -       | -    | -          | -     | 2,621     | -        | -           | 2,621    |

|   |         |      |         |       |            |       |           |      |             |           |  |
|---|---------|------|---------|-------|------------|-------|-----------|------|-------------|-----------|--|
| conversion rights issued in connection with issuance of Series C Preferred Stock                    |         |      |         |       |            |       |           |      |             |           |  |
| 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 SFAS 123R  | -       | -    | -       | -     | -          | -     | (311)     | 311  | -           | -         |  |
| Net loss  | -       | -    | -       | -     | -          | -     | -         | -    | (7,046)     | (7,046)   |  |
| Balance, December 31, 2006  | -       | \$ 0 | 368,155 | \$ 37 | 26,542,924 | \$ 27 | \$ 34,573 | \$ - | \$ (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    |  |

NEUROLOGIX, INC. AND SUBSIDIARY  
(A Development Stage Company)  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)  
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH JUNE 30, 2008  
(UNAUDITED)

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

|   |         |    |           |      |         |   |       |   |         |         |
|---|---------|----|-----------|------|---------|---|-------|---|---------|---------|
| 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 preferred stock                 | -       | -  | 93,940    | 9    | -       | - | 2,949 | - | (2,958) | -       |
| Issuance of Common Stock in connection with issuance of Series D Preferred Stock                              | -       | -  | -         | -    | 192,017 | - | 192   | - | (192)   | -       |
|   | -       | -  | -         | -    | -       | - | 702   | - | -       | 702     |

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|   |         |       |         |       |            |       |           |      |             |           |         |
|---|---------|-------|---------|-------|------------|-------|-----------|------|-------------|-----------|---------|
| Employee share-based compensation expense   |         |       |         |       |            |       |           |      |             |           |         |
| 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 | \$ - | \$ (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    | -       | -     | -          | -     | 4,943     | -    | -           | -         | 4,957   |
| 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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 (A Development Stage Company)  
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 FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH JUNE 30, 2008  
 (UNAUDITED)

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

|  |         |       |         |       |            |       |           |      |             |           |
|--|---------|-------|---------|-------|------------|-------|-----------|------|-------------|-----------|
| Employee shared-based compensation expense | -       | -     | -       | -     | -          | -     | 325       | -    | -           | 325       |
| Non-employee share-based compensation      | -       | -     | -       | -     | -          | -     | (4)       | -    | -           | (4)       |
| Net Loss                                   | -       | -     | -       | -     | -          | -     | -         | -    | (3,279)     | (3,279)   |
| Balance June 30, 2008                      | 734,898 | \$ 73 | 291,878 | \$ 29 | 27,632,808 | \$ 28 | \$ 62,247 | \$ - | \$ (40,209) | \$ 22,168 |

See accompanying notes to condensed financial statements.

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

(Amounts in thousands)

Six Months Ended June 30,

For the  
period  
February 12,  
1999  
(inception)  
through  
June 30,  
2008

|   | 2008       | 2007       |             |
|---|------------|------------|-------------|
| Operating activities:   |            |            |             |
| Net loss  | \$ (3,279) | \$ (3,407) | \$ (31,261) |
| Adjustments to reconcile net loss to net cash used in operating activities: |            |            |             |
| Depreciation  | 58         | 52         | 501         |
| Amortization  | 27         | 20         | 294         |
| Gain on redemption of investment  | -          | -          | (62)        |
| Stock options granted for services  | -          | -          | 9           |
| Impairment of intangible assets   | 29         | -          | 194         |
| Amortization of non-employee share-based compensation                       | 18         | 106        | 1,450       |
| Share-based employee compensation expense                                   | 325        | 447        | 2,220       |
| Non-cash interest expense   | -          | -          | 378         |
| Changes in operating assets and liabilities                                 |            |            |             |
| Decrease in prepaid expenses and other current assets                       | 84         | 149        | 686         |
| (Decrease) increase in accounts payable and accrued expenses                | (662)      | (42)       | 542         |
| Net cash used in operating activities                                       | (3,400)    | (2,675)    | (25,049)    |
| Investing activities:   |            |            |             |
| Security deposits paid  | -          | -          | (7)         |
| Purchases of equipment  | (5)        | (96)       | (565)       |
| Additions to intangible assets  | (140)      | (77)       | (1,165)     |
| 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                                       | (145)      | (173)      | (1,672)     |
| 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                                     | -          | 90         | 733         |
| Proceeds from issuance of common stock and warrants                         | -          | -          | 5,066       |
| Proceeds from issuance of preferred stock                                   | 4,957      | -          | 34,452      |
| Net cash provided by financing activities                                   | 4,957      | 90         | 48,290      |

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|  |           |          |           |
|--|-----------|----------|-----------|
| Net increase (decrease) in cash and cash equivalents | 1,412     | (2,758)  | 21,569    |
| Cash and cash equivalents, beginning of period       | 20,157    | 10,478   | -         |
| Cash and cash equivalents, end of period             | \$ 21,569 | \$ 7,720 | \$ 21,569 |

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

(Amounts in thousands)

Six Months Ended June 30,

For the  
period  
February 12,  
1999  
(inception)  
through  
June 30,  
2008

|   | 2008     | 2007   |          |
|---|----------|--------|----------|
| Supplemental disclosure of non-cash investing and financing activities:                       |          |        |          |
| Dividends on Series C Preferred Stock paid in preferred shares                                | -        | \$ 593 | \$ 1,811 |
| Accrued dividends on Preferred Stock  | \$ 1,230 | \$ (3) | \$ 1,522 |
| Accretion of fair value of beneficial conversion on preferred stock                           | 562      | -      | \$ 5,313 |
| Accretion of contingent beneficial conversion related on Series C Preferred Stock             | 212      | -      | \$ 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                    | -        | \$ 1   | \$ 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 condensed financial statements.

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

(1) Description of Business

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

The Company incurred net losses of \$3,279, \$3,407 and \$31,261 and negative cash flows from operating activities of \$3,400, \$2,675 and \$25,049 for the six months ended June 30, 2008 and 2007 and for the period from February 12, 1999 (inception) to June 30, 2008, 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 \$21,569 and \$20,157 as of June 30, 2008 and December 31, 2007, respectively. Management believes that the Company’s current resources will enable it to continue as a going concern through at least December 31, 2009. Although the Company believes that its resources are sufficient to initiate and obtain the primary results (i.e. efficacy data) from the Phase 2 clinical trial for Parkinson’s disease and to initiate a Phase 1 clinical trial for epilepsy or one of its other products, the Company’s existing resources are not sufficient to allow it to perform all of the clinical trials required for drug approval and marketing for any of its product candidates. Accordingly, it will, from time to time, continue to seek additional funds through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. The Company does not know whether additional financing will be available when needed, or if available, will be on acceptable or favorable terms to it or its stockholders.

(2) Basis of Presentation

The accompanying unaudited condensed financial statements of the Company should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-KSB for the year ended December 31, 2007 (the “2007 10-KSB”) filed with the Securities and Exchange Commission (the “SEC”) on March 25, 2008. 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 and adjustments relating to the April 2008 private placement (see Note 4), 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, 2007 consolidated balance sheet information was derived from the audited consolidated financial statements as of that date.

## (3) Summary of Significant Accounting Policies

## (a) Stock-Based Compensation:

At June 30, 2008, the Company had one active share-based employee compensation plan available for employees, non-employee directors and consultant grants. Stock option awards granted from this plan are granted at the fair market value on the date of grant, and vest over a period determined at the time the options are granted, ranging from zero to three years, and generally have a maximum term of ten years. Certain options provide for accelerated vesting if there is a change in control (as defined in the plans) 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.

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

The total value of the stock option awards is expensed ratably over the service period of the employees receiving the awards. As of June 30, 2008, total unrecognized compensation cost related to stock option awards, to be recognized as expense subsequent to June 30, 2008, was approximately \$336, and the related weighted-average period over which it is expected to be recognized was approximately 1 year.

The amount of compensation expense recognized under SFAS 123R during the three and six months ended June 30, 2008 and 2007 was comprised of the following:

|  | Six Months Ended June 30, |           | Three Months Ended June 30, |           |
|--|---------------------------|-----------|-----------------------------|-----------|
|  | 2008                      | 2007      | 2008                        | 2007      |
| Research and development   | \$ 90                     | \$ 143    | \$ 53                       | \$ 96     |
| General and administrative   | 235                       | 304       | 153                         | 230       |
| Share-based compensation expense   | \$ 325                    | \$ 447    | \$ 206                      | \$ 326    |
| Net share-based compensation expenses per basic and diluted common share | \$ (0.01)                 | \$ (0.02) | \$ (0.01)                   | \$ (0.01) |

A summary of option activity as of June 30, 2008 and changes during the six months then ended is presented below:

| Options                          | Shares<br>Subject to<br>Option (000) | Weighted-<br>Average<br>Exercise<br>Price | Weighted-Average<br>Remaining<br>Contractual Term<br>(years) | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|--------------------------------------|---|--|---------------------------------|
| Outstanding at December 31, 2007 | 2,877                                | \$ 1.61                                   |  |                                 |
| Granted                          | 906                                  | 0.62                                      |  |                                 |
| Exercised                        | -                                    | -   |  |                                 |
| Forfeited or expired             | -                                    | -   |  |                                 |
| Outstanding at June 30, 2008     | 3,783                                | \$ 1.37                                   | 7.04   | \$ 0                            |
| Exercisable at June 30, 2008     | 2,657                                | \$ 1.59                                   | 6.43   | \$ 0                            |

The weighted-average grant-date fair value of options granted during the six months ended June 30, 2008 and 2007 was \$0.46 and \$0.86, respectively and was estimated using the Black Scholes option valuation model.

The fair value of each stock option award is estimated under SFAS 123R on the date of the grant using the Black-Scholes option valuation model based on the assumptions noted in the following table:

|                         | Six Months Ended June 30, |       |
|-------------------------|---------------------------|-------|
|                         | 2008                      | 2007  |
| Expected option term    | 5-6                       | 5-6   |
| Risk-free interest rate | 3.79%                     | 4.63% |
| Expected volatility     | 91%                       | 89%   |
| Dividend yield          | 0%                        | 0%    |

Expected volatility is based on historical volatility of the Common Stock. The risk-free rate is based on the five-year U.S. Treasury security rate.

The expected 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 discussed in SAB 107, in developing an estimate of the expected term of "plain vanilla" share options in accordance with SFAS 123R. 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 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 valuation model to determine the fair value of such instruments in accordance with SFAS 123R and Emerging Issues Task Force Issue 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods, or Services." The options granted to non-employees are re-measured as they vest and the resulting value is recognized as an adjustment against our net loss over the period during which the services are received.

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

Basic net loss per common share excludes the effects of potentially dilutive securities and is computed by dividing net loss applicable to common 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:

|   | Six Months Ended June 30, |           |
|---|---------------------------|-----------|
|   | 2008                      | 2007      |
| Stock options   | 3,783,333                 | 3,614,162 |
| Warrants  | 7,441,920                 | 3,131,585 |
| Common Stock issuable upon conversion of Series A Convertible Preferred Stock | 645                       | 645       |
| Common Stock issuable upon conversion of Series C Convertible Preferred Stock | 6,739,709                 | 7,996,724 |
| Common Stock issuable upon conversion of Series D Convertible Preferred Stock | 22,996,618                | -         |

(c) Recent Accounting Pronouncements:

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The provisions of SFAS 157 were adopted by the Company on January 1, 2008 and had no material impact on its consolidated financial position, results of operations or cash flows.

In February 2008, the FASB issued FSP 157-2, “Partial Deferral of the Effective Date of Statement 157” (“FSP 157-2”). FSP 157-2 delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS 157 on nonfinancial assets and nonfinancial liabilities, but does not expect the adoption to have a material impact on its consolidated financial position, results of operations or cash flows.

Effective January 1, 2008, the Company adopted SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”), including an amendment to FASB No. 115. SFAS 159 provides entities with the irrevocable option to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The adoption of SFAS 159 did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows as the Company did not elect this fair value option on any financial assets or liabilities.

Effective January 1, 2008, the Company adopted EITF Issue No. 07-1, “Accounting for Collaborative Arrangements” (“EITF 07-1”). EITF 07-1 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. The adoption of EITF 07-1 did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity’s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact of SFAS 161, but does not expect the adoption of SFAS 161 to have a material impact on its consolidated financial position, results of operations or cash flows.

#### (4) Private Placement

On April 28, 2008, the Company issued and sold 142,857 additional shares of Series D Convertible Preferred Stock, par value \$0.10 per share (the “Series D Stock”), at a price of \$35.00 per share, or a total of \$5,000, to Corriente Master Fund, L.P. (“Corriente”) in a private placement transaction, resulting in net proceeds after expenses of approximately \$4,957. Each share of Series D Stock is currently convertible into approximately 30.17 shares of Common Stock. The Series D Stock is not redeemable by the Company. In connection with the sale of the Series D Stock on April 28, 2008, the Company issued warrants to purchase 1,077,586 shares of the Common Stock at an exercise price of \$1.39 per share. The warrants are exercisable at any time within their terms.

On April 28, 2008, the Company also entered into an amendment (the "Amendment") to the Registration Rights Agreement, dated as of November 19, 2007, by and among the Company, Corriente, General Electric Pension Trust, Chrysler LLC Master Retirement Trust and certain funds managed by ProMed Asset Management LLC (the "Investors"), which provides an additional right to demand a registration (the "Series D Demand"), which may be requested by holders of the Series D Stock. All of the Investors have a right to participate in the Series D Demand. Pursuant to the Amendment, the Company is required to pay a cash amount, as liquidated damages, to those Investors participating in the Series D Demand if a registration statement filed pursuant to such Series D Demand is not declared effective within 150 days of the notice containing the Series D Demand. The cash amount shall equal 1% of the total amount that such participating Investors invested in the Company, and is payable until such registration statement is declared effective up to an aggregate amount of \$1,000. This provision does not result in the Company recording a charge at this time.

The Company recorded a charge in the second quarter of 2008 of approximately \$562 for the accretion of beneficial conversion rights related to the issuance of the Series D Stock and warrants on April 28, 2008. The related charge is reflected in the statements of operations for the three and six months ended June 30, 2008 as an increase in the net loss for the purposes of determining the net loss applicable to common stock.

Additionally, as a result of this financing, in accordance with the contingent anti-dilution terms of the Series C Convertible Preferred Stock (the "Series C Stock"), the Series C Stock's conversion rate was adjusted from 21.4724 to 21.875. This anti-dilution adjustment resulted in a contingent beneficial conversion charge of approximately \$212, which was used to calculate net loss applicable to common stock for the three and six months ended June 30, 2008.

#### (5) Commitments and Contingencies

##### Research Agreements

On June 9, 2008, the Company entered into an Amendment (the "Amendment"), dated as of May 29, 2008, to its Master Sponsored Research Agreement (the "Research Agreement"), dated as of May 10, 2006, with The Ohio State University Research Foundation, on behalf of Ohio State University ("OSURF"). The Amendment revises the fees paid by the Company to OSURF under the Research Agreement and extends the initial term of the Research Agreement for one year through November 10, 2008. The Amendment requires the Company to pay to OSURF approximately \$166 in two equal installments, the amount of which is being expensed over the term of the Amendment. The first installment of approximately \$83 was paid upon the execution of the Amendment and the remaining payment is due 6 months thereafter.

#### 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, 2007 included in the Company's Annual Report on Form 10-KSB filed with the SEC on March 25, 2008. 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 June 30, 2008, the Company had an accumulated deficit of \$40,209, and it expects to incur additional losses in the foreseeable future. The Company recognized net losses of \$3,279 for the six months ended June 30, 2008, and \$3,407 for the six months ended June 30, 2007.

Since its inception, the Company has financed its operations primarily through sales of its equity and debt securities. From inception through June 30, 2008, the Company received proceeds primarily from private sales of equity and debt securities and from the merger of approximately \$44,556 in the aggregate.

The Company has devoted a significant portion of its capital resources to the research and development of its products. Until recently, the Company's primary efforts had been directed to the development of its (i) Parkinson's product and (ii) temporal lobe epilepsy ("TLE") product. As a result of certain additional time requirements and issues with respect to the TLE product (see "Plan of Operation – Epilepsy"), the Company is currently concentrating its efforts on the development of its Parkinson's product.

In addition to its products for Parkinson's and TLE, the Company is undertaking efforts to develop gene transfer for the treatment of Huntington's disease. The Company believes that its current resources are sufficient to move either its TLE product or its Huntington's product into human clinical trials. The Company is currently evaluating the merits of proceeding with its TLE product or its Huntington's product, and expects to accelerate its development for one of such products before the end of 2008. 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 appears 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, in which treatment was confined to only one side of the brain, also yielded statistically significant clinical efficacy and neuroimaging results. The results were peer-reviewed and published in 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.

On December 13, 2007, the Company announced that the U.S. Food and Drug Administration (the "FDA") granted Fast Track Designation for the Company's Parkinson's treatment. The receipt of Fast Track Designation does not, however, assure the approval of any of the Company's study protocols or the ultimate approval of any Biologics License Application that may be submitted by the Company to the FDA for marketing authorization.



On March 27, 2008, the Company received clearance from the FDA to initiate its planned Phase 2 clinical trial for Parkinson's disease. It will be a randomized, controlled study designed to further establish the effectiveness and the safety of the treatment. The trial will be conducted in multiple medical centers throughout the U.S. and the treatment will be infused bilaterally in trial participants. Commencement of such trial is subject, among other things, to approval of each site's Institutional Review Board and Institutional Biosafety Committee and the availability of the catheter system, developed by Medtronic, Inc. ("Medtronic"), to infuse the Company's gene transfer product into the brain with respect to the treatment of Parkinson's disease. Under the Company's investigational new drug application ("IND"), the FDA has approved the use of this device for such clinical trial.

The Company had planned to commence this Phase 2 clinical trial during the second quarter of 2008, but, due to additional time required to obtain the above-mentioned approvals and additional efforts to assure safety and use of the catheter system, the trial is now expected to commence in the third quarter of 2008.

The Company will take steps to move toward a pivotal trial for treatment of Parkinson's disease, and hopes to be in a position to file its protocol with the FDA in 2010. Currently, the Company estimates that the pivotal trial could be completed in 2012 and the estimated total costs to reach that milestone are expected to be in excess of \$20,000.

### Epilepsy

In December 2006, the Company submitted an IND to the FDA for permission to begin a Phase 1 clinical trial in 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 reviewed favorably.

During the second quarter of 2008, the Company learned that further action is required to protect adequately the Company's intellectual property rights in its technology relating to its TLE product. The Company recently discovered that certain individuals, not affiliated with the Company, may also have rights to use the technology currently used by the Company with respect to the TLE product. If the Company elects to proceed with its Phase 1 clinical trial for its TLE product, the Company, as previously disclosed, will conduct an additional pre-clinical study in non-human primates, which would be conducted in accordance with guidance received from the FDA.

Based on the foregoing, the commencement of a Phase 1 clinical trial for the Company's TLE product will be subject, among other things, to the successful resolution of the above mentioned intellectual property issues, to the successful completion of this additional pre-clinical study, the availability of funding, concurrence by the FDA and procurement of related intellectual property licenses.

### Huntington's disease

In November 2005, the Company announced findings from pre-clinical studies which showed that a form of the gene XIAP (X-linked Inhibitor of Apoptosis Protein or "dXIAP") may prevent the progression of Huntington's disease. The Company further investigated the neuroprotective effects of dXIAP by injecting presymptomatic rodents with AAV vectors encoding dXIAP into the striatum, an area of the brain largely affected in Huntington's patients. In the study, rodents injected with this vector experienced significant reversal of motor dysfunction to the level of normal rodents, while there was no improvement in rodents treated with a control vector. dXIAP also appeared to prolong the lifespan of the rodents. Furthermore, no adverse effects due to dXIAP overproduction were observed.

This program is currently in the pre-clinical phase of development and the Company will need to conduct additional animal studies confirming the safety and use of dXIAP. Additionally, in connection with the product, the Company will need to procure licensing and intellectual property rights related to the use of dXIAP as well as assure the availability of a specific catheter system to infuse dXIAP into the brain. The Company is currently evaluating whether it will use its current resources to conduct such pre-clinical studies, taking into account, among other things, the strength of the Company's proprietary rights with regard to its Huntington's disease product, the cost of such studies and the relative strength of its other product candidates.

### 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 its Medical College and Ohio State University.

### 2008 Expenditures

Over the next 12 months, in addition to its normal recurring expenditures, the Company expects to spend approximately: \$4,200 in Phase 2 clinical trial expenses with regard to its Parkinson's treatment; \$1,500 in costs associated with scaling up its manufacturing capabilities for the supply of product for a Parkinson's pivotal trial; \$1,100 in costs associated with operating as a publicly traded company, such as legal fees, accounting fees, insurance premiums, investor and public relations fees; \$1,500 in research and licensing fees; and \$800 in pre-clinical study expenses with regard to one of its other products.

### Results of Operations

#### Three Months Ended June 30, 2008 Compared to the Three Months Ended June 30, 2007

**Revenues.** The Company did not generate any operating revenues in the three months ended June 30, 2008 or in the three months ended June 30, 2007.

#### Costs and Expenses.

**Research and Development.** Research and development expenses decreased by \$266 during the three months ended June 30, 2008 to \$747 as compared to \$1,013 during the comparable period in 2007. The decrease is due in part to a \$92 decrease in non-cash compensation expense associated with stock options granted to Company scientists and scientific consultants. The decrease was also due to a \$86 decline in costs associated with preparation for the commencement of the Company's planned future clinical trials for Parkinson's disease and epilepsy, as well as a \$42 reduction in charges associated with a development agreement and stock purchase agreement entered into with Medtronic.



**General and Administrative.** General and administrative expenses decreased by \$111 to \$839 during the three months ended June 30, 2008, as compared to \$950 during the comparable period in 2007. This decrease was due mainly to a \$118 decrease in professional fees, including a \$62 decrease in investor relations fees, a \$60 decrease in cash and non-cash consulting expense and a \$32 decrease in accounting fees, offset by a \$40 increase in legal fees.

**Other Income, Net.** Other income increased by \$55 to \$155 during the three months ended June 30, 2008, as compared to \$100 during the comparable period in 2007. This increase is a result of increased interest income earned on funds received by the Company from its private placements of its Series D Stock in November 2007 and April 2008.

#### Six Months Ended June 30, 2008 Compared to the Six Months Ended June 30, 2007

**Revenues.** The Company did not generate any operating revenues in the six months ended June 30, 2008 or in the six months ended June 30, 2007.

#### Costs and Expenses.

**Research and Development.** Research and development expenses decreased by \$187 during the six months ended June 30, 2008 to \$1,829 as compared to \$2,016 during the comparable period in 2007. The decrease is mainly due to a \$168 reduction in charges associated with a development agreement and stock purchase agreement entered into with Medtronic.

**General and Administrative.** General and administrative expenses increased by \$155 to \$1,761 during the six months ended June 30, 2008, as compared to \$1,606 during the comparable period in 2007. This increase was due, in part, to a \$137 increase in other general and administrative expenses, including a \$50 increase in travel and entertainment expenses, a \$28 increase in information technology expenses, a \$13 increase in depreciation and amortization expense, a \$12 increase in rent expense and a \$34 increase in miscellaneous general and administrative expenses. In addition, the Company incurred \$29 in increased patent impairment charges due to the abandonment of certain non-strategic intellectual property in 2008.

**Other Income, Net.** Other income increased by \$96 to \$311 during the six months ended June 30, 2008, as compared to \$215 during the comparable period in 2007. This increase is a result of increased interest income earned on funds received by the Company from its private placements of its Series D Stock in November 2007 and April 2008.

#### Liquidity and Capital Resources

Cash and cash equivalents were \$21,569 at June 30, 2008.

The Company is a development stage company and has not generated any operating revenues as of June 30, 2008. 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 believes that the Company's current resources will enable it to continue as a going concern through at least December 31, 2009. The Company's existing resources are not sufficient to allow it to perform all of the clinical trials required for drug approval and marketing, including a pivotal trial for Parkinson's disease. Accordingly, it will continue to seek additional funds through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. The Company does not know whether additional financing will be available when needed or, if available, will be on acceptable or favorable terms to it or its stockholders.

Net cash used in operating activities was \$3,400 for the six months ended June 30, 2008 as compared to \$2,675 during the comparable period in 2007. The \$725 increase in net cash used in operations was primarily due to a \$685 increase in cash used as a result of changes to working capital in 2008.

The Company had net cash used in investing activities of \$145 during the six months ended June 30, 2008 as compared to \$173 during the six months ended June 30, 2007. Cash used in investing activities relates to purchases of equipment and additions to intangible assets made by the Company during 2008 and 2007.

Net cash provided by financing activities during the six months ended June 30, 2008 was \$4,957 as compared to \$90 during the six months ended June 30, 2007. During the six months ended June 30, 2008, the Company completed a private placement of its Series D Stock that yielded \$4,957 in net proceeds.

#### 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," "potential," 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 Company's 2007 Annual Report on Form 10-KSB. Although the Company believes these assumptions are reasonable, no assurance can be given that they will prove correct. Accordingly, you should not rely upon forward-looking statements as a prediction of actual results. Further, the Company undertakes no obligation to update forward-looking statements after the date they are made or to conform the statements to actual results or changes in the Company's expectations.

### Item 3. 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 June 30, 2008, 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 June 30, 2008.

(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 2. Unregistered Sales of Equity Securities and Use of Proceeds

On April 28, 2008, the Company issued and sold additional shares of Series D Stock to Corriente in a private placement transaction. The full terms of this private placement transaction are set forth on the Company's Form 8-K filed April 30, 2008 and is incorporated herein by reference.

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

The Company's Annual Meeting of Stockholders was held on May 8, 2008. There were present at the Annual Meeting in person or by proxy stockholders holding an aggregate of 21,954,696 shares of Common Stock, 288,805 shares of Series C Stock and 592,041 shares of Series D Stock. All shares of Preferred Stock account for an additional 24,051,696 shares of Common Stock on an as converted basis, based upon the Series C Stock adjusted conversion price of \$1.60 per share and the Series D Stock initial conversion price of \$1.16 per share.

At the meeting, Cornelius E. Golding, Elliott H. Singer and Martin J. Kaplitt, M.D., the nominees for Class II directors, were elected. The number of votes on an as converted to common basis for each nominee is set forth below:

| Name of Director<br>Nominee | Number of<br>Votes For | Number of<br>Votes Withheld | Number of<br>Votes<br>Abstaining | Number of<br>Broker<br>Non-Votes |
|-----------------------------|------------------------|-----------------------------|----------------------------------|----------------------------------|
| Cornelius E. Golding        | 45,882,111             | 124,281                     | 0                                | 0                                |
| Elliott H. Singer           | 45,883,111             | 123,281                     | 0                                | 0                                |
| Martin J. Kaplitt, M.D.     | 45,872,821             | 133,571                     | 0                                | 0                                |

In addition, the Company's 2000 Stock Option Plan was amended to increase the number of shares that may be issued pursuant thereto from 3,800,000 to 6,000,000 shares. The number of votes for the amendment to the 2000 Stock Option Plan is set forth below:

| Issue   | Number of<br>Votes For | Number of<br>Votes<br>Against | Number of<br>Votes<br>Abstaining | Number of<br>Broker<br>Non-Votes |
|---|------------------------|-------------------------------|----------------------------------|----------------------------------|
| Amendment to<br>the 2000 Stock<br>Option Plan | 38,912,442             | 89,956                        | 40,064                           | 6,963,930                        |

Austin M. Long, III, John E. Mordock and Craig J. Nickels, the Class III directors, and William J. Gedale, Clark A. Johnson and Jeffrey B. Reich, M.D., the Class I directors have terms which expire in 2009 and 2010, respectively. Accordingly, these directors were not up for re-election at the meeting and their terms of office continued after the meeting. Michael Sorell, M.D., the Corporation's former Chief Executive Officer and Class I director, did not stand for re-election at the 2007 Annual Meeting of Stockholders and his term ended on May 9, 2007.

## Item 6. Exhibits

See Exhibit Index.

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.

August 12, 2008

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

August 12, 2008

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



EXHIBIT INDEX

| Exhibit No. | Exhibit   |
|-------------|---|
| 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.**   |

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\*\* Filed herewith