

NEUROLOGIX INC/DE  
Form 10-Q  
May 13, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 March 31, 2011

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  
(Address of Principal Executive Offices)

07024  
(Zip Code)

(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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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 May 1, 2011, 27,997,701 shares of common stock were outstanding.

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TABLE OF CONTENTS

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements (Unaudited)</b>	
Balance Sheets	4
Statements of Operations	5
Statements of Changes in Stockholders' Equity (Deficit)	6
Statements of Cash Flows	13
Notes to Financial Statements	15
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>22</b>
<b>Item 3. Quantitative and Qualitative Disclosures About Market Risk</b>	<b>27</b>
<b>Item 4. Controls and Procedures</b>	<b>28</b>
<b>PART II. OTHER INFORMATION</b>	<b>28</b>
<b>Item 1. Legal Proceedings</b>	<b>28</b>
<b>Item 6. Exhibits</b>	<b>29</b>

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

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

	March 31, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,439	\$ 8,055
Prepaid expenses and other current assets	453	481
Total current assets	5,892	8,536
Equipment, less accumulated depreciation of \$693 and \$682 at March 31, 2011 and December 31, 2010, respectively	60	71
Intangible assets, less accumulated amortization of \$394 and \$364 at March 31, 2011 and December 31, 2010, respectively	1,110	1,065
Other assets	5	5
Total assets	\$ 7,067	\$ 9,677
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,321	\$ 2,302
Notes payable, net of discount	5,387	4,695
Total current liabilities	7,708	6,997
Derivative financial instruments, at estimated fair value - warrants	5,497	6,840
Total liabilities	13,205	13,837
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock; 5,000,000 shares authorized		
Series A – Convertible, \$0.10 par value; 650 shares designated, 645 shares issued and outstanding at March 31, 2011 and December 31, 2010, with an aggregate liquidation preference of \$1	-	-
Series C – Convertible, \$0.10 par value; 700,000 shares designated, 278,849 shares issued and outstanding at March 31, 2011 and December 31, 2010 with an aggregate liquidation preference of \$8,086 and \$8,369 at March 31, 2011 and December 31, 2010, respectively	28	28
Series D – Convertible, \$0.10 par value; 792,100 shares designated, 734,898 shares issued and outstanding at March 31, 2011 and December 31, 2010, with an aggregate liquidation preference of \$32,017 and \$32,547 at March 31, 2011 and December 31, 2010, respectively	73	73
Common Stock:		
\$0.001 par value; 100,000,000 shares authorized, 27,918,148 shares issued and outstanding at March 31, 2011 and December 31, 2010	28	28
Additional paid-in capital	57,578	57,474
Deficit accumulated during the development stage	(63,845 )	(61,763 )
Total stockholders' deficit	(6,138 )	(4,160 )
Total liabilities and stockholders' deficit	\$ 7,067	\$ 9,677

See accompanying notes to financial statements.

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

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

	Three Months Ended March 31,		For the period February 12, 1999 (inception) through March 31, 2011
	2011	2010	
Revenues	\$-	\$-	\$ -
Operating expenses:			
Research and development	1,227	1,857	34,723
General and administrative expenses	830	1,284	23,044
Loss from operations	(2,057 )	(3,141 )	(57,767 )
Other (expense) income:			
Dividend, interest and other income	-	-	1,885
Interest expense – related parties	(1,368 )	-	(2,234 )
Change in estimated fair value of derivative financial instruments – warrants	1,343	(356 )	(1,892 )
Other (expense) income, net	(25 )	(356 )	(2,241 )
Net loss	(2,082 )	(3,497 )	\$ (60,008 )
Preferred stock dividends	(828 )	(771 )	
Net loss applicable to common stock	\$(2,910 )	\$(4,268 )	
Net loss applicable to common stock per share, basic and diluted	\$(0.10 )	\$(0.15 )	
Weighted average common shares outstanding, basic and diluted	27,918,148	27,865,010	

See accompanying notes to financial statements.

NEUROLOGIX, INC.  
(A Development Stage Company)  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2011  
(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Stock Shares	Series C Preferred Stock Amount	Series B Preferred Stock Shares	Series A Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Deficit Accumulated During the Development Stage	Total
Sale of common stock to founders	-	\$ 0	-	\$ 0	6,004,146	\$ 0	\$ 4	\$ 0	\$ 0	\$ 4
Net loss	-	-	-	-	-	-	-	-	(328 )	(328 )
Balance, December 31, 1999	-	0	-	0	6,004,146	0	4	0	(328 )	(324 )
Net loss	-	-	-	-	-	-	-	-	(1,055 )	(1,055)
Balance, December 31, 2000	-	0	-	0	6,004,146	0	4	0	(1,383 )	(1,379)
Stock options granted for services	-	-	-	-	-	-	9	-	-	9
Common stock issued for intangible assets at \$0.09 per share	-	-	-	-	259,491	-	24	-	-	24
Net loss	-	-	-	-	-	-	-	-	(870 )	(870 )
Balance, December 31, 2001	-	0	-	0	6,263,637	0	37	0	(2,253 )	(2,216)
Retirement of founder shares	-	-	-	-	(33,126 )	-	-	-	-	-
Common Stock issued pursuant to license agreement at \$1.56 per share	-	-	-	-	368,761	-	577	(577 )	-	-
Private placement of Series B convertible preferred stock	-	-	-	-	-	-	2,613	-	-	2,613
Amortization of unearned compensation	-	-	-	-	-	-	-	24	-	24
Net loss	-	-	-	-	-	-	-	-	(1,310 )	(1,310)
Balance, December 31,	-	0	-	0	6,599,272	0	3,227	(553 )	(3,563 )	(889 )

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2002

Sale of Common

Stock	-	-	-	-	276,054	-	90	(89 )	-	1
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Amortization of  
unearned

compensation	-	-	-	-	-	-	-	164	-	164
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6

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NEUROLOGIX, INC.  
(A Development Stage Company)  
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FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2011  
(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Stock Shares	Series C Preferred Stock Amount	Series B Preferred Stock Shares	Series A Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Deficit Accumulated During the Development Stage	Total
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
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	-	-	-	-	2,473,914	4	3,062	-	-	3,066

share

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

7

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NEUROLOGIX, INC.  
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STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2011  
(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Shares	Series C Preferred Amount	Series C Preferred Shares	Series C Preferred Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Deficit Accumulated During the Development Stage	Total
Stock options granted for services	-	-	-	-	-	-	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 conversion rights issued in connection with issuance of Series C Preferred Stock	-	-	-	-	-	-	2,621	-	-	2,621
Preferred Dividend and accretion of fair value of beneficial conversion charge	-	-	25,298	3	-	-	(3 )	-	(2,621 )	(2,621 )
Employee share-based compensation expense	-	-	-	-	-	-	1,193	-	-	1,193
Non-employee share-based compensation	-	-	-	-	-	-	83	-	-	83
Reclassification of prior year	-	-	-	-	-	-	-	487	-	487

non-employee  
compensation to  
prepaid expenses

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

8

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NEUROLOGIX, INC.  
(A Development Stage Company)  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2011  
(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Stock Shares	Series C Preferred Stock Amount	Series C Preferred Stock Shares	Series C Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Deficit Accumulated During the Development Stage	Total
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
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	-	-	93,940	9	-	-	2,949	-	(2,958 )	-

with induced  
conversion of  
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

NEUROLOGIX, INC.  
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STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2011  
(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Shares	Series C Preferred Amount	Series C Preferred Shares	Series C Preferred Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Deficit Accumulated During the Development Stage	Total
Conversion of Series C Preferred Stock to Common Stock	-	-	(5,597 )	-	110,052	-	-	-	-	-
Exercise of stock options	-	-	-	-	787,815	1	590	-	-	591
Net loss	-	-	-	-	-	-	-	-	(6,817 )	(6,817 )
Balance, December 31, 2007	597,149	60	295,115	30	27,632,808	28	56,207	0	(36,156 )	20,169
Sale of Series D Preferred Stock through private placement at an average price of \$35.00 per share	142,857	14	-	-	-	-	4,918	-	-	4,932
Fair value of beneficial conversion rights issued in connection with the issuance of Series D Preferred Stock	-	-	-	-	-	-	562	-	-	562
Accretion of fair value of beneficial conversion charge	-	-	-	-	-	-	-	-	(562 )	(562 )
Contingent beneficial conversion feature related to Series C Preferred Stock	-	-	-	-	-	-	212	-	(212 )	-
	(5,108 )	(1 )	(3,237 )	(1 )	-	-	2	-	-	-

Adjustment to preferred dividends accrued										
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 )

NEUROLOGIX, INC.  
(A Development Stage Company)  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2011  
(Amounts in thousands, except for share and per share amounts)

	Series D Preferred Shares	Series C Preferred Amount	Series C Preferred Shares	Series C Preferred Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Deficit Accumulated During the Development Stage	Total
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, 2009	734,898	73	281,263	28	27,865,010	28	56,775	0	(51,528 )	5,376
Contingent beneficial conversion feature related to Series C Preferred Stock	-	-	-	-	-	-	72	-	(72 )	-
Employee share-based compensation expense	-	-	-	-	-	-	501	-	-	501
Non-employee share-based compensation	-	-	-	-	-	-	126	-	-	126
	-	-	(2,414 )	-	53,138	-	-	-	-	-

Conversion of Series C Preferred Stock to Common Stock											
Net loss	-	-	-	-	-	-	-	-	-	(10,163 )	(10,163 )
Balance, December 31, 2010	734,898	73	278,849	28	27,918,148	28	57,474	0		(61,763 )	(4,160 )
Employee share-based compensation expense (unaudited)	-	-	-	-	-	-	67	-	-	-	67

NEUROLOGIX, INC.  
 (A Development Stage Company)  
 STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)  
 FOR THE PERIOD FROM FEBRUARY 12, 1999 (INCEPTION) THROUGH MARCH 31, 2011  
 (Amounts in thousands, except for share and per share amounts)

	Series D Preferred Shares	Series C Preferred Amount	Series C Preferred Shares	Series C Preferred Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Deficit Accumulated During the Development Stage	Total
Non-employee share-based compensation (unaudited)	-	-	-	-	-	-	37	-	-	37
Net loss (unaudited)	-	-	-	-	-	-	-	-	(2,082 )	(2,082)
Balance, March 31, 2011 (unaudited)	734,898	\$ 73	278,849	\$ 28	27,918,148	\$ 28	\$ 57,578	\$ 0	\$ (63,845 )	\$(6,138)

See accompanying notes to financial statements.

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

	Three Months Ended March 31, 2011	2010	For the period February 12, 1999 (inception) through March 31, 2011
<b>Operating activities:</b>			
Net loss	\$ (2,082 )	\$ (3,497 )	\$ (60,008 )
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	11	20	699
Amortization	30	21	534
Gain on redemption of investment	-	-	(62 )
Stock options granted for services	-	-	9
Impairment of intangible assets	-	-	199
Amortization of deferred financing cost and discount on notes payable	810	-	1,080
Amortization of non-employee share-based compensation	37	29	1,884
Share-based employee compensation expense	67	171	3,400
Non-cash interest expense	-	-	378
Change in estimated fair value of derivative financial instruments - warrants	(1,343 )	356	1,892
Changes in operating assets and liabilities			
(Increase) decrease in prepaid expenses and other current assets	(91 )	143	743
Increase (decrease) in accounts payable and accrued expenses	20	(319 )	2,262
Net cash used in operating activities	(2,541 )	(3,076 )	(46,990 )
<b>Investing activities:</b>			
Security deposits paid	-	-	(7 )
Purchases of equipment	-	-	(645 )
Additions to intangible assets	(75 )	(77 )	(1,813 )
Proceeds from redemption of investment			