NEUROLOGIX INC/DE
Form 10QSB
November 14, 2005

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

FORM 10-QSB

(Mark One)

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

For the quarter ended September 30, 2005

[ ] 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.
(Name of Small Business Issuer in its charter)

DELAWARE	06-1582875
(State or other jurisdiction of Incorporation or organization)	I.R.S. Employer Identification No.)

ONE BRIDGE PLAZA, FORT LEE, NEW JERSEY	07024
(Address of principal executive offices)	(Zip Code)

(201) 592-6451
(Issuer's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

At November 1, 2005 there were outstanding 26,542,924 shares of the Registrant's Common Stock, $.001 par value.

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

PART I. FINANCIAL INFORMATION

Item 1 - Financial Statements

NEUROLOGIX, INC. AND SUBSIDIARY
(A Development Stage Company)

CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)
(Amounts in thousands, except share and per share data)

ASSETS
Current assets:
Cash and cash equivalents
Investments being held to maturity
Prepaid expenses and other current assets

Total current assets
Equipment, less accumulated depreciation of $242
Intangible assets, less accumulated amortization of $75
Investments in unconsolidated affiliates
Other assets

Total Assets

LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:
Accounts payable and accrued expenses
Current portion of capital lease obligations

Total current liabilities

Capital lease obligations, net of current portion

Total Liabilities

Commitments and contingencies
Stockholders' equity:
Preferred stock:
Series A - $.06 per share cumulative, convertible 1-for-25 into common stock; $.10 par value; 500,000 shares authorized, 645 shares issued and outstanding with an aggregate liquidation preference of $1 per share
Common stock:
$.001 par value; 60,000,000 shares authorized, 26,532,924 issued and outstanding
Additional paid-in capital
Unearned compensation
Deficit accumulated during the development stage

Total stockholders' equity

Total Liabilities and Stockholders' Equity

See accompanying notes to the unaudited condensed consolidated financial statements.

NEUROLOGIX, INC.
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(Amounts in thousands, except share and per share data)

	Nine Months Ended September 30,		Three Months Ended September	
	2005	2004	2005	
Operating expenses:				
Research and development	$ 1,613	$ 1,038	$ 300	
General and administrative expenses	1,993	1,233	724	
Loss from operations	(3,606)	(2,271)	(1,024)	
Other income (expense):				
Dividend, interest and other income	122	56	29	
Interest expense-related parties	(3)	(20)	(1)	
Other income (expense), net	119	36	28	
Net loss	$(3,487)	$(2,235)	$ (996)	
Basic and diluted net loss per share	$ (0.14)	$ (0.11)	$(0.04)	
Weighted average common shares				

outstanding, basic and diluted	25,409,082	20,177,602	26,530,061	22,5

See accompanying notes to the unaudited condensed consolidated financial statements.

NEUROLOGIX, INC. AND SUBSIDIARY
(A Development Stage Company)

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
FOR THE PERIOD FROM FEBRUARY 12, 1999 (DATE OF INCEPTION) THROUGH SEPTEMBER 30, 2005
(UNAUDITED)
(Amounts in thousands, except share data)

	Common Stock		Additional Paid-in	
	Shares	Amount	Capital	Unearned Compensatio
Sale of common stock to founders	6,004,146	$0	$4	$-
Net loss	-	-	-	-
Balance, December 31, 1999	6,004,146	0	4	-
Net loss	-	-	-	-
Balance, December 31, 2000	6,004,146	0	4	-
Stock options granted for services	-	-	9	-
Common stock issued for intangible assets at $0.09 per share	259,491	-	24	-
Net loss	-	-	-	-
Balance, December 31, 2001	6,263,637	0	37	-
Retirement of founder shares	(33,126)	-	-	-
Common stock issued pursuant to license agreement at $1.56 per share	368,761	-	577	(577
Private placement of Series B preferred stock	-	-	2,613	-
Amortization of unearned compensation	-	-	-	24
Net loss	-	-	-	-
Balance, December 31, 2002	6,599,272	0	3,227	(553
Sale of common stock	276,054	0	90	(89
Amortization of unearned compensation	-	-	-	164
Net loss	-	-	-	-
Balance, December 31, 2003	6,875,326	0	3,317	(478
Conversion of note payable to common stock	1,091,321	1	2,371	-
Conversion of mandatory redeemable preferred stock to common stock	6,086,991	6	494	
Conversion of Series B convertible stock to common stock	1,354,746	1	(1)	-
Effects of reverse acquisition	7,103,020	14	5,886	-
Amortization of unearned compensation	-	-	-	202
Stock options granted for services	-	-	42	(42

Exercise of stock options	10,000	-	15	-
Net loss	-	-	-	-
Balance, December 31, 2004	22,521,404	22	12,124	(318
Amortization of unearned compensation	-	-	-	614
Stock options granted for services	-	-	1,319	(1,319
Private placement of common stock, net of expense	3,615,466	5	5,061	-
Exercise of stock options	396,054	-	112	-
Net loss		-	-	-
Balance, September 30, 2005	26,532,924	$27	$18,616	$(1,023

See accompanying notes to the unaudited condensed consolidated financial statements.

NEUROLOGIX, INC. AND SUBSIDIARY
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Amounts in thousands)

	Nine Months Ended September 30,	
	2005	20
Operating activities:		
Net loss	$(3,487)	$(
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	59	
Amortization	39	
Stock options granted for services	-	
Impairment of intangible assets	92	
Amortization of unearned compensation	614	
Non-cash interest expense	2	
Changes in operating assets and liabilities	51	
Net cash used in operating activities	(2,630)	(
Investing activities:		
Security deposits paid	-	
Purchases of equipment	(45)	
Development of intangible assets	(134)	
Purchases of marketable securities	(3,600)	(
Proceeds from sale of marketable securities	2,400	
Net cash used in investing activities	(1,379)	
Financing activities:		
Proceeds from note payable	-	
Borrowings from related party	-	

Cash acquired in Merger	-	
Merger-related costs	-	
Payments of capital lease obligations	(19)	
Stock issuance costs	(150)	
Proceeds from exercise of stock options	112	
Proceeds from issuance of common stock	5,216	
Proceeds from issuance of preferred stock	-	
Net cash provided by financing activities	5,159	
Net increase in cash and cash equivalents	1,150	
Cash and cash equivalents, beginning of period	1,122	
Cash and cash equivalents, end of period	$2,272	$
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock to pay debt	-	$
Reverse acquisition - net liabilities assumed, excluding cash	-	
Mandatory redeemable convertible preferred stock converted to common stock	-	
Common stock issued to acquire intangible assets	-	
Stock options granted for services	$1,319	
Common stock issued pursuant to license agreement	-	
Acquisition of equipment through capital leases	-	

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(1) The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, the consolidated financial statements do not include all information and notes required by accounting principles generally accepted in the United States for complete annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for a fair presentation. These unaudited condensed consolidated financial statements should be read in conjunction with the Annual Report on Form 10-KSB of Neurologix, Inc. and its subsidiaries (the "Company") as of and for the year ended December 31, 2004.

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company is in the development stage and has not generated any operating revenues as of September 30, 2005. As a result, the Company has incurred net

losses of $3,487, $2,235 and $12,261 and negative cash flows from operating activities of $2,630, $2,210 and $10,371 for the nine months ended September 30, 2005 and 2004 and for the period from February 12, 1999 (inception) to September 30, 2005, respectively. In addition, management believes that the Company will continue to incur net losses and cash flow deficiencies from operating activities for the foreseeable future.

As of September 30, 2005, the Company had cash and cash equivalents of $2,272 and investments being held to maturity of $2,781. Management believes that the Company's current resources will enable it to continue as a going concern through at least September 30, 2006. Although the Company believes that its resources are sufficient to complete a Phase I clinical trial for Parkinson's disease and to initiate a Phase I clinical trial for epilepsy, the Company's resources are not sufficient to allow it to perform all of the clinical trials required for drug approval and marketing. 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.

On February 10, 2004, pursuant to a Merger Agreement (the "Merger Agreement"), Neurologix Research, Inc. (formerly known as Neurologix, Inc. and referred to herein as "NRI") merged (the "Merger") with and into a wholly-owned subsidiary of Neurologix, Inc. (formerly known as Change Technology Partners, Inc. and referred to herein individually as "Neurologix" and, together with its subsidiary, as the "Company") with NRI being the surviving corporation and becoming a wholly-owned subsidiary of the Company. As a result of the Merger, stockholders of NRI received an aggregate number of shares of Neurologix common stock representing approximately 68% of the total number of shares of Neurologix common stock outstanding after the Merger. Accordingly, the business combination has been accounted for as a reverse acquisition with NRI being the accounting parent and Neurologix being the accounting subsidiary. The Company's condensed consolidated financial statements include the operations of Neurologix, being the accounting subsidiary, from the date of acquisition.

On September 10, 2004, pursuant to the written consent of stockholders owning approximately 59% of the Company's common stock, $.001 par value (the "Common Stock"), the Company amended and restated its Certificate of Incorporation, as a result of which it effected a reverse stock split of the shares of Common Stock at a ratio of 1 for 25 and reduced the Company's number of authorized shares of Common Stock from 750,000,000 to 60,000,000. All information related to Common Stock, preferred

stock, options and warrants to purchase Common Stock and earnings per share included in the accompanying consolidated financial statements has been retroactively adjusted to give effect to the Company's 1 for 25 reverse stock split, which became effective on September 10, 2004.

(2) The accounting policies followed by the Company are set forth in Note 2 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004, which are incorporated herein by reference.

(In thousands, except for share and per share amounts)

(3) The results of operations for the three and nine month periods ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year.

(4) Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), provides for the use of a fair value based method of accounting for employee stock compensation. However, SFAS 123 also allows an entity to continue to measure compensation cost for stock options granted to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), which only requires charges to compensation expense for the excess, if any, of the fair value of the underlying stock at the date a stock option is granted (or at an appropriate subsequent measurement date) over the amount the employee must pay to acquire the stock, if such amounts differ materially from the historical amounts. The Company has elected to continue to account for employee stock options using the intrinsic value method under Opinion 25. By making that election, the Company is required by SFAS 123 and SFAS 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" to provide pro forma disclosures of net income (loss) and earnings (loss) per share as if a fair value based method of accounting had been applied. The Company has used the Black-Scholes option pricing model, as permitted by SFAS 123, to estimate the fair value of options granted to employees for such pro forma disclosures and amortized such value over the vesting period, as follows:

	Nine Months Ended September 30,		Three Months E September 3	
	2005	2004	2005	
Net loss - as reported	$(3,487)	$(2,235)	$(996)	
Add stock-based employee compensation expense included in reported net loss	330	-	58	
Deduct total stock-based employee compensation expense determined under fair value-based method for all awards	(912)	(156)	(210)	
Net loss - pro forma	$(4,069)	$(2,391)	$(1,148)	
Basic/diluted loss per share - as reported	$ (0.14)	$ (0.11)	$ (0.04)	
Basic/diluted loss per share - pro forma	$ (0.16)	$ (0.12)	$ (0.04)	

The following are the weighted-average assumptions used with the Black-Scholes pricing model:

	Nine months ended September 30,	
	2005	2004
Expected option term (years)	5	5
Risk-free interest rate (%)	3.70 - 4.18	3.15 - 3.79
Expected volatility (%)	94 - 103	115 - 152
Dividend yield (%)	0	0

As a result of amendments to SFAS 123, the Company will be required to expense the fair value of options over the service period beginning in the first quarter of the year ending December 31, 2006.

In accordance with SFAS 123, all other issuances of common stock, stock options or other equity instruments issued to employees and non-employees as consideration for goods or services received by the Company are accounted for based on the fair value of the consideration received or the fair value of the equity instrument, whichever is more readily measurable. Such fair value is measured at an appropriate date pursuant to the guidance in EITF Issue No. 96-18 and capitalized or expensed as appropriate.

(5) Basic net loss per common share excludes the effect of potentially dilutive securities and is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period. The Company's dividend requirements on its Series A preferred stock are not material, and, accordingly, loss applicable to the Common Stock equaled net loss in each period presented in the accompanying condensed consolidated statements of operations. Diluted net income or loss per share is adjusted for the effect of convertible securities, warrants and other potentially dilutive financial instruments only in the periods in which such effect 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:

	September 30,	
	2005	2004
Stock Options	2,235,220	1,715,567
Warrants	1,519,056	828,000
Series A Convertible Preferred Stock	645	645

(6) Related Party Transactions:

Since the Merger, Refac, which is 90% owned by Palisade Concentrated Equity Partnership, L.P., a private equity partnership managed by Palisade Capital Management, L.L.C. ("PCM"), has provided consulting services to the Company at a basic monthly retainer of $5 subject to a quarterly adjustment, by mutual agreement, at the end of each calendar quarter to reflect the services rendered during such quarter. Either party has the right to terminate this agreement at any time without any prior notice. The agreement was terminated as of August 1, 2005. Under this arrangement, the Company had paid $44 and $80 with respect to services rendered during the nine-month periods ended September 30, 2005 and 2004, respectively, with $5,000 being paid in the third quarter of 2005.

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

Effective with the closing of the Merger, the Company relocated its corporate offices to One Bridge Plaza, Fort Lee, New Jersey 07024. The Company initially used these premises on a month-to-month basis under a verbal agreement with Palisade Capital Securities, LLC ("PCS"), an affiliate of PCM, that did not require the payment of rent. On August 10, 2004, the Company entered into a sublease with PCS for the lease of space at One Bridge Plaza, Fort Lee, New Jersey through January 31, 2008 at a base annual rent of approximately $35. The rent that the Company pays to PCS is equal to the rental amount that PCS pays under its master lease for this space.

Effective April 1, 2005, the Company entered into an agreement with PCM for administrative support services at a rate of $3 per month. Either party has the right to terminate this agreement at any time upon 30 days prior notice.

Additionally, the Company maintains brokerage accounts with PCS for the Company's marketable securities.

(7) Employment Agreement with Dr. Michael Sorell

Effective September 21, 2004, the Company entered into an employment agreement with Michael Sorell, M.D. to serve as the President and Chief Executive Officer of the Company and NRI for an initial term of employment of 18 months, which will automatically be extended for an additional 18 months absent notice to the contrary from either party. Dr. Sorell's initial annual base salary was $150, which was increased to $181 in March 2005 and to $200 in May 2005 based upon the achievement of specified financing objectives of the Company (see Note 10). In addition to cash compensation, Dr. Sorell's employment agreement also provides for the grant of options as described in Note 9.

(8) Consulting Agreements

On April 25, 2005 NRI entered into an Amended and Restated Consulting Agreement (the "Kaplitt Agreement") with Dr. Michael G. Kaplitt, one of NRI's scientific co-founders. NRI and Dr. Kaplitt had been parties to a Consulting Agreement, dated October 1, 1999, as amended on October 8, 2003. Pursuant to the terms of the Kaplitt Agreement, Dr. Kaplitt will continue to provide advice and consulting services on an exclusive basis in scientific research on human gene therapy in the nervous system. Dr. Kaplitt will also continue to serve as a member of NRI's Scientific Advisory Board. Dr. Kaplitt will be paid an annual retainer of $100 at such time as he determines that his receipt of compensation from NRI would not be considered to compromise any clinical trial sponsored by NRI. In connection with the execution of the Kaplitt Agreement, the Company granted Dr. Kaplitt nonqualified stock options to purchase 160,000 shares of Common Stock (see Note 9).

On June 20, 2005, the Company executed a Consulting Agreement (the "Hertzog Agreement") with David B. Hertzog. The Hertzog Agreement became effective as of May 16, 2005. The Hertzog Agreement provides that Mr. Hertzog will provide to the Company on a part-time basis independent consulting services with respect to legal and financial regulatory matters. The term of the Hertzog Agreement is one year, although the Hertzog Agreement may be earlier terminated under certain circumstances. The Hertzog Agreement provides that Mr. Hertzog will receive compensation of $100, payable in equal monthly installments. Mr. Hertzog received stock options to acquire up to 250,000 shares of Common Stock (see Note 9). The Company will also reimburse Mr. Hertzog for his reasonable

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

expenses and indemnify him for certain losses incurred in connection with the services performed under the Hertzog Agreement. Mr. Hertzog is required to keep confidential certain information received from the Company.

(9) Stock Options:

During 2000, the Company approved a stock option plan (the "Plan") which provides for the granting of stock options and restricted stock to employees, independent contractors, consultants, directors and other individuals. A maximum of 800,000 shares of Common Stock were originally approved for issuance under the Plan by the Board. The Plan was amended by the Board and the Company's stockholders to increase the number of shares available for issuance by 500,000 shares. As of September 30, 2005, the Company had 42,108 shares available for issuance under the Plan.

In connection with Dr. Sorell's employment, the Company entered into a Stock Option Agreement with him pursuant to which it granted Dr. Sorell options to purchase up to 1,150,000 shares of Common Stock at an exercise price of $0.75 per share. These options include a base grant and an incentive grant.

Base Stock Option Grant - The base grant consists of an option to purchase 250,000 shares of Common Stock, 125,000 of which are vested. The remaining 125,000 shares vest as follows: 100,000 shares on December 31, 2005 and 25,000 shares on March 31, 2006.

Incentive Stock Option Grant - The incentive grant originally consisted of options to purchase 900,000 shares of Common Stock at an exercise price of $0.75 per share (the "Incentive Grant"). The ultimate number of shares issued under the Incentive Grant was 537,815 and was determined by reference to the amount of gross proceeds raised in equity financings by the Company on or before September 30, 2005, taking into account the price per share paid for Common Stock issued in such financings. Through September 30, 2005, the Company raised gross proceeds of approximately $5,216 at an average price of $1.44 per share.

One-third (1/3) of the shares covered by the Incentive Grant became exercisable on April 27, 2005, with the balance of the shares vesting ratably over a twenty-four (24) month period commencing April 27, 2005. The options have a maximum ten-year term and are subject to accelerated vesting in the event that Dr. Sorell's employment by the Company without cause, due to his death of disability or upon a change in control. If Dr. Sorell's employment is terminated by the Company for cause or by Dr. Sorrell voluntarily, then the unvested portion of his options will immediately terminate as of the date of such termination of employment. Of the total options held by to Dr. Sorell, 273,892 were granted pursuant to the Plan in order to qualify as incentive stock options, and the remaining 513,923 options were not granted under the Plan or any other shareholder-approved plan, but are governed by terms identical to the provisions of the Plan.

For purposes of determining whether there is any compensation expense incurred with respect to the grant of these options under APB 25, the measurement date - the date when the number of options was actually determinable - and not the grant date is used. Since the fair value of the options on the measurement date in April 2005 exceeded the exercise price, the difference or intrinsic value must be amortized as compensation expense over

(In thousands, except for share and per share amounts)

the vesting period of the options. The aggregate compensation expense, under this valuation, is $699 and represents a non-cash charge in the condensed consolidated statement of operations of the Company. The expense for the third quarter of 2005 is $58 and for the nine months' ended September 30, 2005 is $330 (see Amendment No. 1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005).

In connection with the execution of the Kaplitt Agreement, the Company granted Dr. Kaplitt nonqualified stock options to purchase 160,000 shares of Common Stock. Although the options were not granted under the Plan, the options will be governed under the same terms as options granted under the Plan. The exercise price of the options is $2.05 per share. Twenty percent of the options became exercisable on the date of the grant, and twenty percent will vest on each anniversary following the date

of the grant through 2009. The fair value of these non-employee stock options are estimated on the balance sheet date for non-vested options and on the vesting date for the vested options. The fair value of the options is being amortized to expense over the five-year term of the Kaplitt Agreement.

In connection with the execution of a Scientific Advisory Board Agreement, dated January 26, 2005 (the "Lowenstein Agreement"), with Daniel Lowenstein, Mr. Lowenstein received stock options to acquire up to 30,000 shares of Common Stock pursuant to the Plan, which options will expire on January 26, 2010. The exercise price of the options is $2.10 per share. One-third of the options vested on January 26, 2005, and one-third will vest on each of January 26, 2006 and January 26, 2007. The fair value of these non-employee stock options are estimated on the balance sheet date for non-vested options and on the vesting date for the vested options. The fair value of the options is being amortized to expense over the three-year term of the Lowenstein Agreement.

Under the terms of the Hertzog Agreement, Mr. Hertzog received stock options to acquire up to 250,000 shares of Common Stock pursuant to the Plan, which options will expire on May 16, 2010. The exercise price of the options is $1.825 per share. One half of such options vested on May 16, 2005 and one quarter will vest on each of November 16, 2005 and the termination date of the Hertzog Agreement. The fair value of these non-employee stock options are estimated on the balance sheet date for non-vested options and on the vesting date for the vested options. The fair value of the options is being amortized to expense over the one-year term of the Hertzog Agreement.

The following table summarizes information about stock options outstanding at September 30, 2005:

	Number of Shares	Weighted Average Exercise Price
January 1, 2005	2,613,459	$0.84
Granted	30,000	2.10
Exercised	(120,000)	0.75
Expired	(240,000)	0.75
March 31, 2005	2,283,459	$0.86
Granted	590,000	1.92

(In thousands, except for share and per share amounts)

Exercised	(276,054)	0.08
Expired	(362,185)*	0.75
June 30, 2005	2,235,220	$1.25
Granted	0	
Exercised	0	
Expired	0	
September 30, 2005	2,235,220	$1.25

*Represents the number of options expiring under the terms of Dr. Sorell's Incentive Grant. See above.

(10) Private Placements

During the period from February 4, 2005 to April 4, 2005, pursuant to a Stock Purchase Agreement, as amended, (the "Stock Purchase Agreement") the Company sold and issued 2,473,914

shares of Common Stock to investors led by Merlin Biomed Group (the "Purchasers"), for an aggregate purchase price of $3,216, or $1.30 per share, resulting in net proceeds after expenses of approximately $3,066. The Purchasers also received five-year warrants to purchase a total of 618,478 shares of Common Stock at an exercise price of $1.625 per share. Beginning in August 2007, if the share price of the Common Stock exceeds $3.25 per share for any ten consecutive trading day period and certain other conditions are met, the Company may call any or all of the unexercised warrants by purchasing the warrants at a price of $0.01 each.

On April 27, 2005, Medtronic International, Ltd. (a wholly-owned subsidiary of Medtronic, Inc. ("Medtronic") and referred to herein as "Medtronic International"), in conjunction with a development and manufacturing agreement (the "Development Agreement"), increased its equity investment in the Company by $2,000, purchasing 1,141,522 shares of Common Stock at a price of $1.752 per share, plus a warrant to purchase 285,388 shares of Common Stock at an exercise price of $2.19 per share (the "Warrant"). The Company has the option to call the Warrant following the thirtieth month after the date of issuance, provided that at such time there is a shelf registration statement effective for at least six months covering the shares of Common Stock underlying the Warrant. If the holder does not exercise the Warrant once the call option requirements have been met, the Company may redeem the Warrant at a price of $0.01 per share. Medtronic International owns approximately 8.7% of the outstanding Common Stock as of September 30, 2005. See Note 11 for a discussion of the Development Agreement.

(11) Other Agreements

The Company entered into a License Agreement (the "KEIO License Agreement"), effective as of April 1, 2005, with KEIO University ("KEIO"), whereby KEIO granted to the Company the sole and exclusive right and license to certain patent rights and technical information throughout the world with the exception of Japan. Pursuant to the KEIO License Agreement, the Company paid KEIO an up front payment of $75 and will pay annual license maintenance fees of $50 payable on or before January 31 of each calendar year from 2006 to 2011 or until such time as the Company is actually commercially selling Products (as

(In thousands, except for share and per share amounts)

such term is defined in the KEIO License Agreement). Additionally, the Company will make milestone payments and pay royalties as provided for in the KEIO License Agreement. The KEIO License Agreement is terminable at any time by the Company upon 90 days' notice.

On April 15, 2005, the Company entered into a Research Agreement with Auckland Uniservices, Ltd. for a total of $282 to be paid in three equal installments of $94 over an 18-month period with the first payment due on April 30, 2005. The research activities to be performed will include, but are not necessarily restricted to, gene therapy research studies on Parkinson's disease. In addition, the research may include work on gene delivery systems, new viral and non-viral vectors, animal models of neurological and metabolic diseases and pre-clinical gene therapy studies on epilepsy and other neurological disorders.

On April 27, 2005, the Company and NRI (the "NRI Entities") entered into the Development Agreement with Medtronic (see Note 10 above). The Development Agreement provides that the NRI Entities will use their experience in technology relating to biologics for the treatment of Parkinson's disease and temporal lobe epilepsy and Medtronic will use its experience in delivery systems for biologic and pharmaceutical compositions to collaborate on a project through which Medtronic will develop a

system for delivering biologics (the "Product"). The Development Agreement will be in place for two years and will renew automatically for successive one-year periods thereafter, unless either party gives the other at least sixty days' prior written notice of its intent not to renew.

Pursuant to the Development Agreement, the NRI Entities are required to pay development costs of $850 to Medtronic over the course of the project based upon development milestones. As of September 30, 2005, the NRI Entities have paid $213. Following regulatory approval and commercialization of the Product, Medtronic will pay certain commissions to the NRI Entities with respect to sales of the Product. Furthermore, the NRI Entities have granted to Medtronic a right of first offer to negotiate, in good faith, for the right to distribute or commercialize certain gene therapy products developed by the NRI Entities for Parkinson's disease or temporal lobe epilepsy.

(12) Pro forma Financial Statements

As described in Note 1 above, NRI merged with and into a wholly-owned subsidiary of Neurologix on February 10, 2004. The following unaudited pro forma information summarizes the combined results of Neurologix and NRI for the three and nine months ended September 30, 2004 as if the merger had occurred at the beginning of each period.

	Nine Months Ended September 30,	Three Months Ended September 30,
	2004	2004
Net loss	$(2,235)	$ (673)

Basic and diluted net loss per share	$ (0.11)	$(0.03)
Weighted average common shares outstanding, basic and diluted	20,177,602	22,521,404

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

Plan of Operation

Effective February 10, 2004, pursuant to a Merger Agreement (the "Merger Agreement"), Neurologix Research, Inc. (formerly known as Neurologix, Inc. and referred to herein as "NRI") merged (the "Merger") with and into a wholly-owned subsidiary of Neurologix, Inc. (formerly known as Change Technology Partners, Inc. and referred to herein individually as "Neurologix" and, together with its subsidiary, as the "Company") with NRI being the surviving corporation and becoming a wholly-owned subsidiary of the Company. As a result of the Merger, stockholders of NRI received an aggregate number of shares of Neurologix common stock, $.001 par value (the "Common Stock"), representing approximately 68% of the total number of shares of Common Stock outstanding after the Merger. Accordingly, the business combination was accounted for as a reverse acquisition with NRI being the accounting parent and Neurologix being the accounting subsidiary. The Company's unaudited condensed consolidated financial statements include the operations of Neurologix, being the accounting subsidiary, from the date of acquisition.

The Company is in the development stage and is involved in the development of proprietary treatments for disorders of the brain and central nervous system using gene therapy and other innovative therapies. These treatments are designed as alternatives to conventional surgical and pharmacological treatments. To date, it has not generated any operating revenues and has incurred total net losses and aggregate negative cash flows from operating activities from inception to September 30, 2005 of $12,261 and $10,371, respectively.

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

On June 8, 2005, the Company announced the completion of all neurosurgical gene transfer procedures for the 12 patients in its Phase I clinical trial of gene therapy for Parkinson's disease. On September 25, 2005, the Company presented the interim results of this Phase I clinical trial at the 19th Annual Symposia on the Etiology, Pathogenesis and Treatment of Parkinson's Disease and Other Movement Disorders. The interim results demonstrated safety as well as efficacy in terms of improvement in motor function and PET scans. Seven of the 12 patients have been evaluated for the required 12-month period, with the remaining patients' evaluations expected to be completed by mid-2006.

Based on the results of this Phase I clinical trial evaluated to date, the Company does not believe that it is necessary, at this juncture, to conduct an extended study, as part of Phase I, for two-sided brain treatments as previously contemplated by the Company. Rather, the Company, pending final results of the 12-patient Phase I clinical trial in mid-2006, expects to move

directly to a pivotal trial for its treatment of Parkinson's disease. In this regard, the Company expects to formulate and submit to the Food and Drug Administration (the "FDA") its protocol for such pivotal trial after receipt of such final results. The timing of the commencement of such pivotal trial will, among other things, depend on FDA approval and additional funds being available to the Company (see "Results of Operations -- Liquidity and Capital Resources").

In October 2004, motivated by encouraging rodent studies, the Company entered into an agreement with Universidade Federal de Sao Paolo to commence a non-human primate study for evaluating the toxicity and efficacy of using its technology in the brain for the treatment of TLE. The study has begun and is expected to be completed in the fourth quarter of 2005. Subject to the successful completion of this study, the Company plans to submit an Investigational New Drug application

to the FDA in the first quarter of 2006 for permission to begin a Phase I clinical trial in TLE. Subject to the FDA's approval, the clinical trial is expected to begin in the second quarter of 2006. The Company originally had expected to receive complete results from the primate study so as to be able to submit to the FDA prior to the end of 2005 and to commence its clinical trial in the first quarter of 2006. The proposed clinical protocol was presented to the NIH Recombinant DNA Advisory Committee on September 23, 2004 and was reviewed favorably.

The Company will also continue its efforts in developing therapies to treat Huntington's disease and Alzheimer's disease as well as continuing its work under the Company's research agreement with Cornell University. Under that agreement the Company funds the development of gene therapy approaches for neurodegenerative disorders, including Parkinson's disease, Huntington's disease, Alzheimer's disease and epilepsy.

The Company has taken and intends to take steps to improve and increase its technical and administrative staff. The Company has, on a part-time basis, retained a consultant to assist in financial and legal matters. The Company has also recently hired an administrative assistant to the CEO and plans to hire, by the end of its fiscal year, a chief administrative officer with accounting and financial experience. In addition, the Company expects to hire an additional lab technician during the third quarter of 2005 to assist the research scientists working at its lab facility.

As of September 30, 2005, the Company had cash and cash equivalents of $2,272 and investments being held to maturity of $2,781. Management believes that the Company's current resources will enable it to continue as a going concern through at least September 30, 2006 and fund the operations described above. See Results of Operations -- Liquidity and Capital Resources.

Recent Developments

The Company is currently in negotiations with Diamyd Therapeutics AB, a Sweden corporation ("Diamyd"), in an effort to obtain an exclusive license for the use of glutamic acid decarboxylase 65 ("GAD 65"), one of the genes used in the proposed form of gene therapy treatment of Parkinson's disease as conducted by the Company during its Phase I clinical trial. The license may also cover use for treatment by the Company of certain other neurologic and neuromuscular disorders. In connection with any license, the Company expects to make certain payments and royalties to Diamyd. As part of the negotiations, the Company is reviewing Diamyd's ownership of, or rights to license, GAD 65. The Company has previously entered into license and royalty agreements with others as part of its research and development operations for treatments of Parkinson's disease

and other diseases (see Note 11 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004).

Although the Company hopes to be able to conclude successful negotiations with Diamyd and obtain its license, there can be no assurance that it will be able to do so. If the Company does not obtain the license, it will be able to carry out its gene therapy programs, including for Parkinson's disease, without the GAD 65 license by Diamyd, although the Company cannot predict what costs would be involved in pursuing an alternate gene therapy approach.

The Board of Directors also elected two new directors to serve on the Board of Directors until their respective terms have expired. Elliott Singer was elected as a Class II director to fill the vacancy created by the resignation of Mark S. Hoffman. John Mordock was elected as a new Class III director to fill the vacancy created by an increase in the size of the Board of Directors. Each of such directors was recommended to the Company by representatives of Palisade Private Partnership, L.P. which owns approximately 27% of the Common Stock (see the Company's Current Report on Form 8-K dated November 14, 2005).

Critical Accounting Policies

The Company's discussion and analysis and plan of operation is based upon the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements filed with the Securities and Exchange Commission. The preparation of these unaudited condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to fixed assets, intangible assets, stock-based compensation, income taxes and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The accounting policies and estimates used as of December 31, 2004, as outlined in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004, have also been applied for the nine months ended September 30, 2005.

Results of Operations

Three Months Ended September 30, 2005 Compared to the Three Months Ended September 30, 2004

Revenues. The Company did not generate any operating revenues during the three months ended September 30, 2005 and 2004.

Costs and Expenses.

Research and Development. Research and development expenses increased by $29 (11%) during the three months ended September 30, 2005 to $300 as compared to $271 during the same period in 2004. The increase is primarily attributable to costs incurred by the Company in connection with payments due under certain of its license agreements and costs incurred for laboratory supplies and operations. Costs associated with the treatment of patients as part

of the Company's Phase I clinical trial for Parkinson's disease during third quarter of 2005 decreased when compared to such costs for the third quarter of 2004. The Company had completed its gene transfer procedures in patients at the end of second quarter of 2005.

General and Administrative. General and administrative expenses increased by $292 (68%) to $724 during the three months ended September 30, 2005, as compared to $432 during the comparable period in 2004. The increase in 2005 is primarily related to non-cash compensation expenses incurred in connection with the stock options granted to Dr. Sorell as the Incentive Grant (see Note 9) and expenses associated with additional administrative staff and consultants (see Notes 6 and 8). In addition, the Company incurred increases in accounting fees and miscellaneous expenses. The increase in accounting fees is principally related to SEC filings. The increase in miscellaneous expenses is primarily attributable to the increased efforts of communicating and meeting with the Company's stockholders and potential investors as well as attendances at and participations in scientific conferences.

Other Income (Net). Other income (net) decreased by $2 (6%) during the three months ended September 30, 2005, over the comparable period of 2004. This decrease is primarily attributable to a decrease in dividend and interest income earned on funds received by the Company during the third quarter of 2005 from its private placements of Common Stock (see Note 10).

Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004

Revenues. The Company did not generate any operating revenues during the nine months ended September 30, 2005 and 2004.

Costs and Expenses.

Research and Development. Research and development expenses increased by $575 (55%) during the nine months ended September 30, 2005 to $1,613 as compared to $1,038 during the same period in 2004. The increase is principally related to costs incurred by the Company in connection with the Medtronic Development Agreement and with its other license agreements. The increase also includes increases in the costs of laboratory supplies and operations. During the nine-month period ended September 30, 2005, the Company's costs of patient treatments relating to its Phase I clinical trial on Parkinson's disease did not increase significantly over the comparable period of 2004. In addition, the Company incurred costs associated with impairment on certain intellectual property of $89.

General and Administrative. General and administrative expenses increased by $760 (62%) to $1,993 during the nine months ended September 30, 2005, as compared to $1,233 during the comparable period in 2004. The increase in 2005 is primarily related to non-cash compensation expenses incurred in connection with the options granted to Dr. Sorell as the Incentive Grant (see Note 9) as well as an increase in compensation to Dr. Sorell. In addition, the increase in 2005 reflects increases in the costs of administrative staff and consultants retained by the Company as well as increases in legal and accounting fees and miscellaneous expenses.

Other Income (Net). Other income (net) increased by $83 (231%) during the nine months ended September 30, 2005 over the comparable period of 2004. This increase is a result of the Merger completed on February 10, 2004, which enabled the Company to satisfy its loans to related parties, thereby

eliminating the related interest expense and providing it with interest bearing cash accounts and cash equivalents, as well as the interest earned on private placement proceeds received during the first nine months of 2005 (see Note 10).

Liquidity and Capital Resources.

Cash and cash equivalents were $2,272 and investments being held to maturity were $2,781 at September 30, 2005.

The Company is still in the development stage and has not generated any operating revenues as of September 30, 2005. In addition, the Company will continue to incur net losses and cash flow deficiencies from operating activities for the foreseeable future. Management believes that the Company's current resources will enable it to continue as a going concern through at least September 30, 2006.

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

Operating activities used $2,630 of cash during the nine months ended September 30, 2005 as compared to $2,210 during the same period in 2004. The Company used the cash to fund its operating

expenses, which increased over the comparable period in 2004. See Results of Operations -- Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004.

Net cash used in investing activities during the nine month periods ended September 30, 2005 and 2004 were $1,379 and $127, respectively, primarily for the purchases of marketable securities and development of intangible assets.

Net cash provided by financing activities was $5,159 during the nine months ended September 30, 2005, principally from the closing of the private placements described in Note 10. During the nine months ended September 30, 2004, financing activities provided $5,006, principally from cash acquired in the Merger of $5,413, partially offset by Merger-related costs of $375.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets". This Statement addresses the measurement of exchanges of nonmonetary assets and is effective for nonmonetary asset exchanges occurring in fiscal years beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material effect on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123(R) - Share-Based Payment, which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees", and amends SFAS No. 95, "Statement of Cash Flows".

Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company will be required to expense the fair value of options granted over the service period beginning in the first quarter of the year ending December 31, 2006. The Company is still evaluating the impact the adoption of this standard will have on its financial statements.

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

FORWARD LOOKING STATEMENTS

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

- the inability of the Company to raise additional funds, when needed, through public or private equity offerings, debt financings or additional corporate collaboration and licensing arrangements, and
- the inability of the Company to successfully complete the Phase I clinical trial for Parkinson's disease or to commence Phase I for temporal lobe epilepsy.

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 2004 Annual Report on Form 10-KSB. Although the Company believes these assumptions are reasonable, no assurance can be given that they will prove correct. Accordingly, you should not rely upon forward-looking statements as a prediction of actual results. Further, the Company undertakes no obligation to update forward-looking statements after the date they are made or to conform the statements to actual results or changes in the Company's expectations.

Item 3 - Controls and Procedures

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's President and Chief Executive Officer (as Principal Executive Officer and Principal Accounting Officer/Principal Financial Officer), has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the quarterly period covered by this report. Based on such evaluation, the Company's President and Chief Executive Officer (as Principal Executive Officer and Principal Accounting Officer/Principal Financial Officer) has concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

The Company has implemented certain additional control policies and procedures during the third quarter of 2005 to resolve, among other things, the material weakness in internal control relating to its accounting treatment of stock options, including stock options granted to non-employee consultants (see Item 3--Controls and Procedures to the Company's Quarterly Report on Form 10-QSB/A for the quarter ended June 30, 2005). In this regard, the Company has assigned additional responsibilities and duties to its outsourced accounting firm to review the accounting for employee and non-employee stock options, including reporting to management and its independent registered public accounting firm. As a result, the Company and its independent registered public accounting firm identified an additional error in accounting for the stock options granted to its President and Chief Executive Officer as the Incentive Grant (see Note 9) which resulted in additional compensation expense being recorded in the second quarter of 2005 and in the recording of compensation expense in the current quarter. This error is limited to the financial statements for the quarter ended June 30, 2005, and does not affect the third quarter financial statements included in this Quarterly Report. The financial statements for the three months and six months ended June 30, 2005 were restated to correct this error as contained in Amendment No. 1 to the Company's Quarterly Report on Form 10-QSB/A for the quarter ended June 30, 2005.

The Company continues to be committed to the review and evaluation of the Company's procedures and policies designed to assure effective internal control over financial reporting.

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

PART II. OTHER INFORMATION

- 20 -

Item 6. Exhibits

See Exhibit Index

- 21 -

Signatures

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

NEUROLOGIX, INC.

November 14, 2005 /s/ Michael Sorell
Michael Sorell
President and Chief Executive Officer
(as Principal Executive Officer)

November 14, 2005 /s/ Michael Sorell
Michael Sorell
President and Chief Executive Officer
(as Principal Accounting Officer/Principal Financial Officer)

- 22 -

EXHIBIT INDEX

Exhibit No.	Exhibit
3.1	Restated Certificate of Incorporation of Neurologix, Inc. (filed as an exhibit to the Registrant's Report on Form 8-K, dated September 13, 2004 and incorporated herein by reference).
3.2	Amended and Restated By-laws of Neurologix, Inc. (filed as an exhibit to the Registrant's Annual Report on Form 10-K dated April 9, 2004 and incorporated herein by reference).
10.1	License Agreement, dated as of August 1, 2005, between Neurologix, Inc. and The Trustees of Columbia University in New York.**
10.2	Letter Agreement, dated November 8, 2005, between Neurologix,

	Inc. and Refac.**
31.1	Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer (as Principal Executive Officer and Principal Accounting Officer/Principal Financial Officer).**
32.1	Section 1350 Certification of President and Chief Executive Officer (as Principal Executive Officer and Principal Accounting Officer/Principal Financial Officer).**

** Filed herewith