

NEUROLOGIX INC/DE  
Form DEF 14A  
April 09, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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**Neurologix, Inc.**

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(4) Date Filed:

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As filed with the Commission on April 9, 2004

**One Bridge Plaza**

**Fort Lee, New Jersey, 07024**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be held on May 7, 2004**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Neurologix, Inc., a Delaware corporation, will be held at Montammy Golf Club, Route 9W & Montammy Drive, Alpine, New Jersey 07620 on Friday, May 7, 2004, at 3:00 p.m., Eastern time, for the following purposes:

1. To elect one Class I director to hold office for a term of three years; and
2. To transact such other business as may properly come before the meeting or any adjournment thereof.

**YOUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE IN FAVOR OF THE PROPOSAL PRESENTED IN THE PROXY STATEMENT.**

The Board of Directors has fixed the close of business on March 26, 2004 as the record date for the determination of stockholders who are entitled to notice of and to vote at the meeting.

A copy of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003 is enclosed.

To assure your representation at the meeting, please sign, date and return your proxy in the enclosed envelope, which requires no postage if mailed in the United States.

By Order of the Board of Directors

MARK S. HOFFMAN

*Secretary*

**One Bridge Plaza**

**Fort Lee, New Jersey 07024**

**PROXY STATEMENT**

**ANNUAL MEETING OF STOCKHOLDERS MAY 7, 2004**

This Proxy Statement is furnished by the Board of Directors (the **Board**) of Neurologix, Inc., a Delaware corporation (the **Corporation**). The Proxy Statement is being sent to the Corporation's stockholders in connection with the solicitation of proxies by the Corporation's Board, on behalf of the Corporation, to be used at the Annual Meeting of Stockholders, which will be held at Montammy Golf Club, Route 9W & Montammy Drive, Alpine, New Jersey 07620 on Friday, May 7, 2004, at 3:00 p.m., Eastern time. The Corporation's offices are located at One Bridge Plaza, Suite 605, Fort Lee, New Jersey 07024.

This Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders and proxy card are being mailed to the Corporation's stockholders on or about April 15, 2004. A copy of the Corporation's Annual Report to Stockholders for the year ended December 31, 2003 is also enclosed.

You are requested to complete, date and sign the accompanying proxy and return it to the Corporation in the enclosed envelope. The proxy relates to the election of one Class I director at the Annual Meeting. The proxy may be revoked at any time before it is exercised by written notice to the Corporation bearing a later date than the date on the proxy and any stockholder attending the meeting may vote in person whether or not he has previously submitted a proxy. The Corporation may solicit proxies in person, by mail, telephone, facsimile, e-mail or other similar means. Where instructions are indicated, proxies will be voted in accordance therewith. Where no instructions are indicated, proxies will be voted for the nominee for the Class I director set forth below.

The Board has fixed the close of business on March 26, 2004 as the record date (the **Record Date**) for the determination of stockholders who are entitled to notice of and to vote at the meeting. As of the Record Date, the outstanding number of voting securities of the Corporation was 562,786,485 shares, consisting of 562,785,840 shares of common stock, par value \$.001 per share (**Common Stock**), and 645 shares of Series A convertible preferred stock, par value \$.10 per share (**Series A Preferred Stock**). For each share held as of the Record Date, each holder of Common Stock is entitled to one vote and each holder of Series A Preferred Stock is entitled to one vote.

The presence, in person or by proxy, at the meeting of the holders of at least a majority of the shares issued and outstanding and entitled to vote will constitute a quorum. A plurality of the votes of the total number of the shares of Common Stock and Series A Preferred Stock present at the meeting will be necessary for the election of the Class I director of the Corporation. Under applicable Delaware law, in tabulating votes, abstentions (including broker non-votes) will be disregarded and will have no effect on the outcome of the vote.

**RECENT MERGER**

On June 18, 2003, the Corporation signed a letter of intent with Neurologix Research, Inc. (formerly known as Neurologix, Inc. and sometimes referred to herein as NRI) to merge a newly-formed, wholly-owned subsidiary of the Corporation (CTP/N Merger Corp.) with and into NRI, with NRI surviving as a wholly-owned subsidiary of the Corporation (the Merger). On August 13, 2003, the Corporation entered into an Agreement and Plan of Merger, with NRI and CTP/N Merger Corp., which was amended on November 14, 2003 (herein collectively referred to as the Merger Agreement). The consummation of the Merger was approved by the stockholders of the Corporation on February 9, 2004 and the Merger was closed on February 10, 2004.

**SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS**

On the Record Date, to the knowledge of the Corporation, the persons and entities listed below were the only beneficial owners of more than five percent of the outstanding shares of Common Stock. Unless otherwise indicated, the address of each stockholder is that of the Corporation.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Outstanding Shares</u>
Palisade Private Partnership, L.P.	170,047,254(1)	30.22%
Palisade Private Holdings, LLC		
One Bridge Plaza Suite 695		
Fort Lee, New Jersey 07024		
Warwick J. Greenwood, Trustee	90,580,219(2)	16.10%
ATEC Trust		
Auckland Technology Enabling Corporation Limited		
P.O. Box 10-359		
8th Floor, Lumley House		
93 The Terrace		
Wellington, New Zealand		
Martin J. Kaplitt	60,325,064(3)	10.72%
Michael R. Gleason	33,500,000(4)	5.95%
Culmen Technology Partners, L.P.	32,000,000	5.69%
6226 Colleyville Blvd. Suite A		
Colleyville, Texas 76034		

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- (1) Based upon the Schedule 13D filed with the Securities and Exchange Commission ( SEC ) by Palisade Private Partnership, L.P ( PPP ) on February 20, 2004. PPP is an investment limited partnership formed under the laws of Delaware. Palisade Private Holdings, LLC ( Holdings ), a Delaware limited liability company, is the general partner of PPP and is deemed to beneficially own the shares owned by PPP.
- (2) Based upon the Schedule 13D filed with the SEC by ATEC Trust ( ATEC ) on February 20, 2004. Warwick Greenwood is the trustee of ATEC and a certified accountant, and is a citizen of New Zealand. ATEC is a trust and is organized under the laws of New Zealand.
- (3) Based upon the Schedule 13D filed with the SEC by Dr. Martin J. Kaplitt on February 20, 2004 and includes 2,434,796 shares owned through his Keogh-Profit Sharing Plan and 57,890,268 shares owned individually.
- (4) Represents 32,000,000 shares of the Corporation s common stock owned by Culmen Technology Partners, L.P. ( Culmen ). Mr. Gleason is the President and sole director of CTP, Inc., the general partner of Culmen. As a result, he may be deemed to have beneficial ownership over these shares. However, Mr. Gleason disclaims beneficial ownership of 30,200,000 shares of the Corporation s common stock. Also includes options to purchase an aggregate of 1,500,000 shares of Corporation s common stock.

The Corporation also has 645 shares of Series A Preferred Stock outstanding all of which are owned by Gordon Bryant, 9408 Avenida Del Oso NE, Albuquerque, New Mexico 87111.

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**SECURITY OWNERSHIP OF MANAGEMENT**

The following table shows: (i) the number of shares of Common Stock that each of the Corporation's directors, nominees and executive officers beneficially owned or had the right to acquire beneficial ownership of as of, or within sixty days of, the Record Date; and (ii) the percentage of the outstanding shares of Common Stock that such ownership constitutes.

<u>Name and Address of Beneficial Owner(1)</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Mark S. Hoffman	170,047,254(2)	30.22%
Clark A. Johnson	11,262,702(3)	1.96%
Martin J. Kaplitt	60,325,064	10.72%
Austin M. Long, III	416,667(4)	*
Alignment Capital Group, LLC		
6615 Vaught Ranch Road Suite 101		
Austin, Texas 78730		
Craig J. Nickels	416,667(4)	*
Alignment Capital Group LLC		
6615 Vaught Ranch Road Suite 101		
Austin, Texas 78730		
<u>Officers and Directors as a Group (5 persons)</u>	242,468,354(5)	43.09%

\* Represents less than 1% of the outstanding shares.

(1) Unless otherwise indicated, the address for each stockholder is the same as the address of the Corporation.

(2) Includes 170,047,254 shares beneficially owned by PPP and Holdings. Mr. Hoffman is a managing member of Holdings but disclaims beneficial ownership of such shares.

(3) Includes 250,000 shares of Common Stock which may be acquired upon the exercise of options which are exercisable immediately.

(4) Includes 416,667 shares of Common Stock which may be acquired upon the exercise of options which are exercisable immediately.

(5) Includes 170,047,254 shares beneficially owned by Holdings of which Mr. Hoffman is a managing director. Mr. Hoffman disclaims beneficial ownership of such shares. Also includes an aggregate of 1,083,334 shares of Common Stock which may be acquired upon the exercise of options which are exercisable immediately.

**PROPOSAL NUMBER 1: ELECTION OF ONE CLASS I DIRECTOR**

The Corporation's Certificate of Incorporation, as amended in connection with the Merger, and By-laws, as amended following the Merger, provide that the Board is divided into three classes: Class I directors, Class II directors and Class III directors. The members of one of the three classes of directors are elected each year for a three-year term. The stockholders will elect one Class I director at the meeting to serve for a three-year term expiring at our annual meeting of stockholders in 2007 or until his successor has been elected and qualified, or until the earliest of his death, resignation or retirement. The Corporation's certificate of incorporation provides that the total number of directors constituting the entire Board shall not be less than three nor more than twelve, with the then authorized directors being fixed from time to time by the Board. Currently, the Board is comprised of five directors.

**NOMINEE FOR ELECTION AS CLASS I DIRECTOR**

Unless instructed otherwise, the proxies named on the enclosed proxy card intend to vote the shares of Common Stock and Series A Preferred Stock that they represent to elect Clark A. Johnson to serve as the Class I director.

Mr. Johnson, age 72, has been a director of the Corporation since the closing of the Merger and of its wholly-owned subsidiary, Neurologix Research, Inc., since November 1999. He has been the Chairman of PSS World Medical, Inc., a national distributor of medical equipment and supplies to physicians, hospitals, nursing homes, and diagnostic imaging facilities since October 2000. Mr. Johnson served as Chairman and Chief Executive Officer of Pier 1 Imports from March 1985 to June 1998 and is a former Executive Vice President and Director of the Wickes Companies, Inc. In addition to the Corporation, he is a director of the following public companies: MetroMedia International Group, OptiCare Health Systems, Inc., PSS World Medical, Inc. and Refac. Mr. Johnson was recommended as a nominee by PPP.

Election of the Class I director of the Corporation will require the affirmative vote of a plurality of the stockholders present in person or represented by proxy at the meeting and entitled to vote thereon.

**THE BOARD RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF ITS NOMINEE FOR CLASS I DIRECTOR.**



**BOARD OF DIRECTORS AND COMMITTEES**

**Other Directors**

The terms of the Class II and Class III directors expire in 2005 and 2006, respectively. Accordingly, these directors are not up for re-election at the meeting.

*Class II Directors Continuing in Office With Terms Expiring at the 2005 Annual Meeting of Stockholders*

**MARK S. HOFFMAN** Mr. Hoffman, age 43, became a director of the Corporation and its Secretary and Treasurer on February 10, 2004 as a result of the Merger. He has been a director, the secretary and the treasurer of the Corporation's wholly-owned subsidiary, Neurologix Research, Inc., since November 1999. He is a Managing Director of Palisade Capital Management, LLC (PCM), an affiliate of PPP, which he joined upon its formation in 1995. PCM is a registered investment adviser based in Fort Lee, New Jersey specializing in small capitalization equities and convertible securities as well as private equity and acts as investment manager to PPP and to two other private equity partnerships. In addition to the Corporation, he is a director of the following public companies: OptiCare Health Systems, Inc. and Refac. Mr. Hoffman was recommended as a director by PPP.

**MARTIN J. KAPLITT, M.D.** Dr. Kaplitt, age 65, became the Chairman of the Board of Directors and President of the Corporation on February 10, 2004 as a result of the Merger. He has been a director and president of the Corporation's wholly-owned subsidiary, Neurologix Research, Inc., since August 1999. Dr. Kaplitt has been associated with North Shore University Hospital for over 30 years and has held a variety of positions there, including: Chief of Thoracic and Cardiovascular Surgery from 1971 to 1978, Associate Attending in Cardiovascular Surgery from 1978 to 2001 and Adjunct Associate Attending in Surgery from 2001 to present. He was also a clinical associate professor of surgery at Cornell University Medical College. Dr. Kaplitt attended Cornell University and the State University of New York, Downstate Medical Center. Dr. Kaplitt is a fellow of the American College of Surgeons and the American College of Cardiology. In addition to the Corporation, he is a director of Trust Company of New Jersey.

*Class III Directors Continuing in Office with Terms Expiring at the 2006 Annual Meeting of Stockholders.*

**AUSTIN M. LONG, III** Mr. Long, age 59, has been a director of the Corporation since June 2003. Mr. Long has worked as an investment professional in private markets since 1987, when he co-founded the University of Texas Management System's private investment group. Mr. Long left the University of Texas in March 2000 to co-found Alignment Capital Partners, LLC, a private market portfolio management advisory operation based in Austin, Texas that was reorganized in October 2001 as Alignment Capital Group, LLC. Mr. Long holds a Masters in Professional Accounting from the University of Texas at Austin and a Juris Doctor from DePaul University. He is also a Certified Public Accountant.

**CRAIG J. NICKELS** Mr. Nickels, age 50, has been a director of the Corporation since June 2003. Mr. Nickels has worked as an investment professional in private markets since 1993, when he joined Mr. Long at The University of Texas Management System's private investment group. Mr. Nickels left the University of Texas in March of 2000 to co-found Alignment Capital Partners, LLC, a private investment management firm based in Austin, Texas that was reorganized in October 2001 as Alignment Capital Group, LLC, specializing in alternative asset consulting. Mr. Nickels is a holder of the Chartered Financial Analyst designation.

**Board Composition and Changes During 2003**

On June 18, 2003, the Corporation announced the appointment of Messrs. Long and Nickels to its Board of Directors, effective June 13, 2003. Following the Merger, as provided for in the Merger Agreement, both of them are continuing to serve as Class III directors. In addition, the Corporation announced the resignations of Mr. William B. Avery and Mr. James M. Dubin as directors, effective June 12, 2003.

The following table sets forth the names of the persons who served as directors of the Corporation during 2003 for the periods set forth beside their respective names:

<u>Name</u>	<u>Period</u>
William B. Avery	January 1, 2003 to June 12, 2003
James M. Dubin	January 1, 2003 to June 12, 2003
Michael R. Gleason	January 1, 2003 to December 31, 2003
Austin M. Long, III	June 13, 2003 to December 31, 2003
Craig J. Nickels	June 13, 2003 to December 31, 2003

### Board Meetings

The Corporation has copies of minutes of meetings held on June 16, 2003 and August 11, 2003 relating to the appointment of Mr. Gleason as the Corporation's Chief Executive Officer and approval of the Merger. At these two meetings, all of the then serving directors were in attendance. While other action was taken by the Board during the year, including the severance agreement with William B. Avery, the appointment of Messrs. Long and Nickels to the Board, the approval of the Chief Executive Officer's compensation and the November 14, 2003 amendment to the Merger Agreement, the new Board and management of the Company has been unable to locate any record of the dates and times of meetings, who attended and the actions taken.

### Committees

The Board currently maintains an Audit Committee and a Compensation Committee.

Prior to 2003, the Board had a Compensation Committee that was comprised of Messrs. Avery and Dubin and a Nominating Committee comprised of Mr. Avery. Messrs. Avery and Dubin both resigned from the Board on June 12, 2003. No meetings were held or actions taken by either the Compensation Committee or the Nominating Committee in 2003 prior to the date of their resignations.

On February 10, 2004, at the initial meeting of the Board of Directors following the closing of the Merger, a new Compensation Committee was formed consisting of Mark S. Hoffman (Chair), Austin M. Long, III and Craig J. Nickels. Mr. Hoffman is a managing member of Holdings which is the general partner of PPP, which beneficially owns approximately 30.22% of the Corporation's outstanding capital stock. Messrs. Long and Nickels are both independent directors.

After the resignations of Messrs. Avery and Dubin, the Board did not appoint new members to serve on the Nominating Committee. The Merger closed on February 10, 2004 and, during the balance of 2004, the Board intends to address its director nomination process and the minimum qualifications that must be met by a nominee to the Board.

### 2003 Audit Committee

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During 2003, Michael R. Gleason, who served as the sole member of the Audit Committee, was not independent using the independence definition of the American Stock Exchange. This Committee was charged with the responsibility of overseeing the financial reporting process of the Corporation. In the course of performing its functions, the Audit Committee (i) reviewed the Corporation's internal accounting controls and its audited financial statements, (ii) reviewed with the Corporation's independent auditors the scope of their audit, their report and their recommendations, (iii) considered the possible effect on the independence of such accountants in approving non-audit services requested of them and (iv) recommended the action to be taken with respect to the appointment of the Corporation's independent auditors. The Board adopted the Audit Committee's charter that was in effect during 2003 on April 30, 2001. The Audit Committee met four times in 2003.

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*New Audit Committee*

At the February 10, 2004 meeting of the Board, Messrs. Long (Chair) and Nickels were elected to serve on the Audit Committee. Both of them are independent using the definition of the American Stock Exchange.

The Committee is responsible for the appointment, compensation and oversight of the work of the Corporation's independent auditors and, in this regard, it meets periodically with the independent auditors to review plans for the audit and the audit results, reviews financial statements, accounting policies, tax and other matters for compliance with the requirements of the Financial Accounting Standards Board and government regulatory agencies. The Board of Directors has determined that Mr. Long is a financial expert, as that term is defined under Item 401(h) of Regulation S-K under the Securities Exchange Act of 1934, as amended. On March 23, 2004, the Board adopted a new written charter of the Audit Committee, a copy of which is filed herewith as Exhibit A.

*Directors' Compensation*

Messrs. Long and Nickels each received director fees in the sum of \$1,250 during 2003. Except for the consulting fees paid to Michael R. Gleason for serving as the Corporation's Chief Executive Officer, no other director received any compensation from the Corporation during 2003.

On March 23, 2004, the Board approved a new compensation package for its non-executive directors. Under the terms thereof, Messrs. Long and Nickels, members of the Audit Committee, will each receive a quarterly retainer of \$2,500 and Mr. Johnson will receive a quarterly retainer of \$1,500. In addition, the Corporation granted to Messrs. Long, Nickels and Johnson options to purchase 1,250,000, 1,250,000 and 750,000 shares of the Corporation's Common Stock, respectively, at an exercise price of \$.06 per share (the fair market value on the date of the grant). One-third of such options vested immediately on the date of grant, one-third vests on March 23, 2005 and the remaining one-third vests on March 23, 2006.

**CODE OF ETHICS**

The Board of Directors has adopted a Code of Ethics for its Chief Executive and Senior Financial Officers and the Corporation's Chief Executive Officer and Chief Financial Officer have signed the code and will be held to the standards outlined therein. In addition, the Board of Directors adopted a Code of Ethics and Conduct applicable to all employees, officers, scientific advisors and directors of the Corporation. Copies of both codes of ethics are filed as an exhibit to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and are available at the Corporation's website at <http://www.neurologix.net> under the heading Investors' Corporate Governance.

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**COMPENSATION OF EXECUTIVE OFFICERS**

The following table presents the aggregate compensation for services in all capacities paid by the Corporation and its subsidiaries in respect of the years ended December 31, 2003, 2002 and 2001 to the Corporation's former Chief Executive Officers. Effective June 17, 2003, Michael R. Gleason was appointed Chief Executive Officer of the Corporation, succeeding William B. Avery who resigned effective the same date. He was the only employee of the Corporation from the date of his appointment to the date of the Merger.

The Corporation currently has two executive officers, Martin J. Kaplitt, President, and Mark S. Hoffman, Secretary and Treasurer. Dr. Kaplitt received \$24,000 from NRI during 2003. Effective April 1, 2004, his compensation for serving as an officer of the Corporation and NRI was increased to \$85,000. During 2003, Mr. Hoffman did not receive any compensation from NRI and the Corporation does not expect to pay him any compensation for serving as an officer of the Corporation and NRI during 2004.

For purposes of this proxy statement, the term "Named Executives" shall mean Messrs. Kaplitt, Hoffman, Avery and Gleason. Except as set forth herein, the Named Executives did not receive any compensation from the Corporation during the years ended December 31, 2001 to December 31, 2003.

**Summary Compensation Table**

Name and Position	Annual Compensation			Securities Underlying Options (#)
	Year	Salary	Bonus	
William Avery	2003	\$280,000*		
Chief Executive Officer, Chief Financial Officer, Secretary and Treasurer (from January 1, 2003 to June 17, 2003)	2002	\$280,000		
	2001	\$128,723		9,000,000
Michael R. Gleason	2003	\$109,000		
Chief Executive Officer and Chief Financial Officer, (from June 17, 2003 to the closing of the Merger)				

\* For information regarding a Separation Agreement and General Release, dated as of June 17, 2003, between the Corporation and Mr. Avery, see "Avery Employment and Separation Agreements" below.

**Option/SAR Grants and Exercises in Last Fiscal Year**

No stock appreciation rights or options were granted to, or exercised by, the Named Executives during 2003. However, in connection with the Separation Agreement and General Release between William B. Avery, the Corporation's then Chief Executive Officer, and the Corporation, dated as of June 17, 2003 (the "Separation Agreement"), 9,000,000 share options granted to Mr. Avery in September 2001 and approved by the stockholders at the Corporation's last Annual Meeting held on August 21, 2002 became vested and, notwithstanding any provision of the option grant to the contrary, all such options granted are now exercisable on or before March 31, 2005. During 2003, the Corporation recorded a \$90,000 stock compensation charge related to a modification of these options. For information regarding the Separation Agreement, see "Avery Employment and Separation Agreements" below.



**Fiscal Year-End Option Values**

The following table reflects the In-the-Money Options held by the Named Executives as of December 31, 2003. No options were exercised by the Named Executives during 2003.

Name	Number of Securities		Value of Unexercised	
	Underlying		In-the-Money Options	
	Unexercised Options		At Fiscal Year-End	
	At Fiscal Year-End		At Fiscal Year-End	
	Exercisable	Not Exercisable	Exercisable	Not Exercisable
Michael R. Gleason	1,489,583	10,417	\$10,000	\$0
William B. Avery	9,000,000	0	\$90,000	\$0

**Equity Compensation Plan Information**

The following table sets forth information as of December 31, 2003, adjusted to reflect the terms of the Merger, with respect to compensation plans (including individual compensation arrangements) under which equity securities of the Corporation are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
2000 Stock Option Plan approved by stockholders	8,585,747	\$0.12	11,414,253
Stock option grant to former Chief Executive Officer, William B. Avery approved by stockholders	6,000,000	\$0.03	
Equity compensation plans not approved by stockholders			
<b>Total</b>	<b>14,585,747</b>	<b>\$0.08</b>	<b>11,414,253</b>

**Avery Employment and Separation Agreements**

On September 19, 2001, the Corporation entered into an employment agreement with Mr. Avery, which had an initial term expiring on December 31, 2004 and an annual salary of \$280,000. On the same date, the Corporation also entered into a severance compensation agreement with Mr. Avery which provided that if his employment was terminated without cause within one year of a change of control of the Corporation,



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he would be entitled to (i) a lump sum equal to 1.5 times his average base salary for the previous five years; (ii) a lump sum equal to any amounts forfeited under any employee pension benefit plan; and (iii) continued coverage (until the later of (x) the day Mr. Avery accepts new full-time employment or (y) three years from the date of termination) under all employee welfare benefit plans. The Merger would have constituted a change of control .

On June 17, 2003, the Corporation and Mr. Avery entered into the Separation Agreement pursuant to which the Corporation agreed to pay him \$152,000 and provide the following:

an office through September 30, 2003;

an e-mail address through December 31, 2003;

insurance benefits through December 31, 2004; and,

as described above (See Option/SAR Grants and Exercises in Last Fiscal Year ), options to purchase 9,000,000 shares at \$.03 per share were modified so that they vested immediately and would remain

exercisable through March 31, 2005. The Corporation also agreed to pay his attorney fees in connection with the Separation Agreement, moving expenses for his personal property and up to \$500 to transfer his personal digital computer files off of the Corporation's computer system.

In addition to the above, the Separation Agreement provided for the assignment by the Corporation to Mr. Avery of its interest in (i) InSys Technology LLC, a Delaware limited liability Corporation ( InSys ), (ii) a related promissory note made by John J. Goodwin in a principal amount of \$100,000 and (iii) a warrant to purchase common stock of RAND Interactive Corporation ( RAND ). As of the date of the Separation Agreement, the book value of InSys and the RAND warrant on the Corporation's books was approximately \$14,000 and \$0, respectively. The Corporation has agreed to pay Mr. Avery's Federal, state and local income tax liabilities arising out of the transfer of these assets.

In consideration of the above, Mr. Avery waived and released any common law, statutory or other complaints, claims, charges or causes of action arising out of or relating to his employment or termination of employment with, or his serving in any capacity in respect of, the Corporation, its subsidiaries and/or their affiliates, both known and unknown, in law or in equity, which he ever had against the Corporation, its subsidiaries and/or their affiliates or any of their respective shareholders, employees, directors or officers.

#### **Compensation Committee Report On Executive Compensation**

Prior to 2003, the Board had a Compensation Committee that was comprised of Messrs. Avery and Dubin, both of whom resigned from the Board on June 12, 2003. During 2003, all action taken on executive compensation was approved by the entire board.

On February 10, 2004, at the initial meeting of the Board of Directors following the closing of the Merger, a new Compensation Committee was formed consisting of Mark S. Hoffman (Chair), Austin M. Long, III and Craig J. Nickels.

#### ***Chief Executive Officer Compensation***

William B. Avery was the Chief Executive Officer of the Corporation until June 17, 2003 when the Separation Agreement and his resignation became effective. At that time, Michael R. Gleason replaced Mr. Avery as Chief Executive Officer and he served in that capacity until the closing of the Merger on February 10, 2004. The Corporation had no other executives for which the Board was responsible for administering compensation in 2003.

On September 30, 2002, the Board adopted a plan of liquidation and dissolution in order to maximize stockholder value and noted that if no suitable business opportunities became available to it, subject to stockholder approval, it would commence liquidation in 2003. The Board was given the authority to amend, modify or abandon the plan if it determined that doing so would be in the best interests of the Corporation and its stockholders. On June 18, 2003, the Corporation signed a letter of intent with respect to the Merger and entered into the Merger Agreement on August 13, 2003 and an amendment to the Merger Agreement on November 14, 2003. The consummation of the Merger was approved by the stockholders of the Corporation on February 9, 2004 and the Merger was closed on February 10, 2004.

The Corporation's chief objective in executive compensation during 2003 was to assure that there would be continuity of management while the Corporation was initially proceeding with its plan of liquidation and dissolution and subsequently with the Merger. The Board believed that the Separation Agreement with Mr. Avery was necessary to facilitate the Merger and also enabled the Corporation to settle its contractual obligations to Mr. Avery on acceptable terms. During the period from June 17, 2003 to the completion of the Merger, Mr. Gleason was the sole

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employee of the Corporation and was paid a monthly consulting fee of \$14,500 for his services. In addition to the general administration of the Corporation's affairs, he was responsible for the

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negotiations for and completion of the sale of Papke-Textor, Inc. (also known as Canned Interactive) and the negotiations for and the completion of the Merger.

#### ***Objectives of Current Compensation Committee***

The primary objective of the current Compensation Committee is to retain the most highly qualified executive officers and to ensure that their compensation structure aligns their interests with those of the stockholders of the Corporation. While the Compensation Committee will administer and decide upon executive compensation, stock option and benefit plans and grants under such plans, the Corporation's overall compensation strategy, including a determination of compensation paid to the President of the Corporation, Martin J. Kaplitt, will be presented to the entire Board for its ratification.

Presently, Dr. Martin J. Kaplitt is the only key executive for whom the Committee is responsible for administering compensation in 2004. During 2003, Dr. Kaplitt received \$24,000 from NRI. Effective April 1, 2004, the Committee has increased his annual compensation to \$85,000, which increase was ratified by the Board on March 23, 2004.

#### ***Components of Executive Compensation***

The Corporation intends to use both cash and equity in compensating its executives and employees.

#### ***Deductibility of Compensation***

Section 162(m) of the Code generally limits to \$1,000,000 the Corporation's federal income tax deduction for compensation paid in any year to each of its Chief Executive Officer and the four other most highest paid executive officers, to the extent such compensation is not performance-based within the meaning of Section 162(m). The Committee will, in general, seek to qualify compensation paid to its executive officers for deductibility under Section 162(m), although the Committee believes it is appropriate to retain the flexibility to authorize payments of compensation that may not qualify for deductibility if, in the Committee's judgment, it is in the Corporation's best interest to do so.

The Compensation Committee of the Board,

Mark S. Hoffman, Chair

Austin M. Long, III

Craig J. Nickels

#### **Compensation Committee Interlocks And Insider Participation**

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From January 1, 2003 to June 12, 2003, the Compensation Committee was comprised of Messrs. Avery and Dubin. During their service as members of the Board in 2003, none of the Committee members received any compensation from the Corporation other than their fees as directors of the Corporation. Paul Weiss, Rifkind, Wharton & Garrison LLP, of which Mr. Dubin is a partner received \$419,000, \$387,000 in fees in 2003 and 2002, respectively

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**COMPARISON OF CUMULATIVE TOTAL STOCKHOLDER RETURN**

The graph below compares the total stockholder return on the Corporation's Common Stock with the total stockholder return of (i) the NASDAQ Stock Market (U.S.) Index and (ii) the MG Group Information Technology Services Index, assuming an investment of \$100 on December 31, 1999 in each of the Corporation's Common Stock, the stocks comprising the NASDAQ Market Index and the stocks comprising the MG Group Index. The chart also includes the cumulative total return on the Hambrecht & Quist Internet Index during the period from December 31, 1999 through December 31, 2001.

**COMPARE CUMULATIVE TOTAL RETURN****AMONG NEUROLOGIX, INC.****NASDAQ INDEX AND MG GROUP INDEX****ASSUMES \$100 INVESTED ON DEC. 31, 1999****ASSUMES DIVIDENDS REINVESTED****FISCAL YEAR ENDING DEC. 31, 2003**

	Year Ended December 31, 2003				
	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03
Neurologix Inc.	100.00	300.00	20.00	8.00	144.00
MG Group Information Technology Services Index	100.00	61.24	65.43	35.57	50.39
NASDAQ Market Index (U.S.)	100.00	60.71	47.93	34.20	51.98
Hambrecht & Quist Internet Index	100.00	38.48	24.76	N/A	N/A

The Hambrecht & Quist Internet Index was discontinued as an index in February, 2002 and will not be available to the Corporation as a performance indicator of the Common Stock. To replace the Hambrecht & Quist Internet Index, the Corporation has selected the MG Group Information Technology Services Index. The Corporation has included the performance of the Hambrecht & Quist Internet Index through the fiscal year ended December 31, 2001 to provide a point of comparison against the MG Group Information Technology Services Index.

### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

For information on the Separation Agreement, see Compensation of Executive Officers Avery Employment and Separation Agreements.

Pursuant to the Merger Agreement, following the closing of the Merger NRI paid Palisade Capital Securities, LLC, an affiliate of PPP, \$200,000 for investment banking services rendered in connection with the Merger. PPP is beneficial owner of approximately 30.22% of the Corporation's outstanding capital stock.

During the year ended December 31, 2003, the Corporation incurred legal fees in connection with certain transactions and other matters in the normal course of business. A portion of these services was provided by Paul, Weiss, Rifkind, Wharton & Garrison LLP, of which James M. Dubin, a member of the Board and the compensation committee up until his resignation from the Board effective June 12, 2003, is a partner. Fees incurred by this firm totaled approximately \$419,000 and \$387,000 for the years ended December 31, 2003 and 2002, respectively.

Except as otherwise provided in this proxy statement, since January 1, 2003, there has not been at any time any relationship or related transaction which the Corporation would be required to disclose under Item 404 of Regulation S-K.

### **AUDIT COMMITTEE REPORT**

The Board has an Audit Committee comprised of two directors. All members of the Audit Committee currently meet the independence and qualification standards for audit committee membership set forth in the listing standards of Exchange Act.

The Audit Committee oversees the Corporation's financial process on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the 2003 Annual Report on Form 10-K with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Board adopted a written charter of the Audit Committee on April 30, 2001. After the closing of the Merger, the Board, on March 23, 2004, adopted a new charter. A copy of the new charter is attached as Exhibit A hereto.

The Corporation's management is responsible for the preparation, presentation and integrity of the Corporation's financial statements, accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors, J.H. Cohn LLP, are responsible for performing an independent audit of the consolidated financial statements prepared in accordance with generally accepted accounting principles.

In performing its oversight function, the Audit Committee reviewed with the Corporation's independent auditors such auditors' judgments as to the quality, not just the acceptability, of the Corporation's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards, including Statement on Auditing Standards Nos. 61 and 90. In addition, the Committee has discussed with the independent auditors the auditors' independence from management and the Corporation and received the written disclosures and the letter from the independent auditors required by the Independence Standards Board, Standard No. 1.

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The Committee discussed with the Corporation's independent auditors the overall scope and plans for their audit. The Committee met with the independent auditors, with and without management present, to discuss the

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results of their examination, their evaluation of the Corporation's internal controls, and the overall quality of the Corporation's financial reporting.

In reliance on the reviews and discussions referred to above, and subject to the limitations on the role and responsibilities of the Audit Committee set forth below and in its charter, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 for filing with the Securities and Exchange Commission. The Audit Committee also approved the selection of the Corporation's independent auditors for the fiscal year ended December 31, 2003.

It should be noted that although the members of the Audit Committee are financially sophisticated they are not professionally engaged in the practice of auditing or accounting, are not employed by the Corporation for accounting, financial management or internal control purposes and are not experts in the fields of accounting or auditing, including the determination of auditor independence. Members of the Audit Committee rely without independent verification on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not assure that the audit of the Corporation's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that J.H. Cohn LLP is in fact independent.

The Audit Committee of the Board,

Austin M. Long III, Chair

Craig J. Nickels

#### **INDEPENDENT PUBLIC ACCOUNTANTS**

KPMG LLP ( KPMG ) served as the independent public accountants for the Corporation during the fiscal year ended December 31, 2002. On February 20, 2004, the Audit Committee engaged the accounting firm of J.H. Cohn LLP ( J.H. Cohn ), NRI's historical independent accountants, to replace KPMG. KPMG did not resign or decline to stand for re-election, but was dismissed on February 23, 2004 as part of the change of control to allow the appointment of J.H. Cohn as the Corporation's principal accountants.

KPMG's opinions regarding the financial statements of the Corporation for the two fiscal years ended December 31, 2002 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles; except that the audit report of KPMG for the audit of the consolidated financial statements as of December 31, 2001 and 2002 and for the two years ended December 31, 2002, dated March 27, 2003, contained two explanatory paragraphs. The first explanatory paragraph referred to the Corporation's change in its method of accounting for goodwill and other intangible assets, in 2002, as discussed in Note 2 to the consolidated financial statements for the year ended December 31, 2002. The second explanatory paragraph referred to the uncertainty of the Corporation to continue as a going concern in light of a plan of liquidation and dissolution that it had adopted and which raised substantial doubt about its ability to continue as a going concern. The Corporation's plans with regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might arise from the outcome of this uncertainty.

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The Corporation is not aware of any disagreements with KPMG during the two fiscal years ended December 31, 2002 and 2001 and the subsequent interim period up to the date of dismissal on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which

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disagreements if not resolved to their satisfaction would have caused KPMG to make reference in connection with their opinion to the subject matter of the disagreement.

On February 20, 2004, the Corporation engaged J.H. Cohn LLP to perform the Corporation's audit for 2003. J.H. Cohn LLP does not have any direct or indirect financial interest in the Corporation in any capacity other than that of independent public accountants. A representative of J.H. Cohn will be present at the meeting to answer questions by stockholders concerning the accounts of the Corporation and will have the opportunity to make a statement, if such representative desires to do so.

**Principal Accounting Firm Fees**

The following table sets forth the aggregate fees billed to the Corporation for the fiscal years ended December 31, 2003 and 2002 by the Corporation's former principal accounting firm, KPMG LLP:

<u>Description</u>	<u>2003</u>	<u>2002</u>
Audit fees	\$196,050	\$132,100
Audit related fees		39,700
Tax fees		
All other fees		
<b>Total</b>	<b>\$196,050</b>	<b>\$171,800</b>

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