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NORTHFIELD LABORATORIES INC /DE/
Form 10-Q
April 15, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE PERIOD ENDED FEBRUARY 28, 2002

OR

TRANSITION REPORT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-24050

NORTHFIELD LABORATORIES INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

36-3378733
(I.R.S. Employer
Identification Number)

1560 SHERMAN AVENUE, SUITE 1000, EVANSTON, ILLINOIS
(Address of principal executive offices)

60201-4800
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (847) 864-3500

FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST
REPORT: NOT APPLICABLE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS
REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF
1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE
REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH
FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES X NO
--- ---

APPLICABLE ONLY TO ISSUER INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS FILED ALL DOCUMENTS AND
REPORTS REQUIRED TO BE FILED BY SECTION 12, 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 SUBSEQUENT TO THE DISTRIBUTION OF SECURITIES UNDER A PLAN
CONFIRMED BY A COURT. YES NO
--- ---

AS OF FEBRUARY 28, 2002, REGISTRANT HAD 14,265,875 SHARES OF COMMON STOCK
OUTSTANDING

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Northfield Laboratories Inc.:

We have reviewed the balance sheet of Northfield Laboratories Inc. (a company in the development stage) as of February 28, 2002, and the related statements of operations for the three-month periods ended February 28, 2002 and 2001, and statements of operations and cash flows for the nine-month periods ended February 28, 2002 and 2001 and for the period from June 19, 1985 (inception) through February 28, 2002. We have also reviewed the statements of shareholders' equity (deficit) for the nine-month period ended February 28, 2002 and for the period from June 19, 1985 (inception) through February 28, 2002. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Northfield Laboratories Inc. as of May 31, 2001, and the related statements of operations, shareholders' equity (deficit), and cash flows for the year then ended and for the period from June 19, 1985 (inception) through May 31, 2001 (not presented herein); and in our report dated July 2, 2001, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying balance sheet as of May 31, 2001 and in the accompanying statement of shareholders' equity (deficit) for the year ended is fairly stated, in all material respects, in relation to the statement from which it has been derived.

/s/ KPMG LLP

Chicago, Illinois
March 29, 2002

NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Balance Sheets

February 28, 2002 and May 31, 2001

ASSETS

FEBRUARY 28,
2002

MAY 31
2001

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| | ----- (unaudited) | ----- |
|--|----------------------|-----------|
| Current assets: | | |
| Cash | \$ 15,708,003 | 6,435,5 |
| Short-term marketable securities | 4,996,604 | 22,262,8 |
| Prepaid expenses | 172,640 | 378,1 |
| Other current assets | 51,990 | 455,8 |
| | ----- | ----- |
| Total current assets | 20,929,237 | 29,532,3 |
| Property, plant, and equipment, net | 2,344,958 | 2,847,3 |
| Other assets | 72,664 | 122,5 |
| | ----- | ----- |
| | \$ 23,346,859 | 32,502,2 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 484,328 | 1,772,5 |
| Accrued expenses | 171,465 | 153,9 |
| Accrued compensation and benefits | 315,012 | 261,2 |
| | ----- | ----- |
| Total current liabilities | 970,805 | 2,187,7 |
| Other liabilities | 175,373 | 166,8 |
| | ----- | ----- |
| Total liabilities | 1,146,178 | 2,354,5 |
| | ----- | ----- |
| Shareholders' equity: | | |
| Preferred stock, \$.01 par value. Authorized 5,000,000 shares; none issued and outstanding | -- | -- |
| Common stock, \$.01 par value. Authorized 30,000,000 shares; issued and outstanding 14,265,875 shares at February 28, 2002, and May 31, 2001, respectively | 142,659 | 142,6 |
| Additional paid-in capital | 117,503,271 | 117,503,2 |
| Deficit accumulated during the development stage | (95,445,249) | (87,498,2 |
| | ----- | ----- |
| Total shareholders' equity | 22,200,681 | 30,147,6 |
| | ----- | ----- |
| | \$ 23,346,859 | 32,502,2 |
| | ===== | ===== |

See accompanying independent accountants' review report.

NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Statements of Operations

Three and nine month periods ended February 28, 2002 and February
28, 2001 and for the period from June 19, 1985 (inception)
through February 28, 2002

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| | THREE MONTH PERIODS ENDED | | NINE MONTH PERIODS | |
|---|---------------------------|----------------------|----------------------|----------|
| | FEBRUARY 28, 2002 | FEBRUARY 28, 2001 | FEBRUARY 28, 2002 | FEB 2 |
| | (UNAUDITED) | (UNAUDITED) | (UNAUDITED) | (UN |
| Revenues - license income | \$ -- | -- | -- | |
| Costs and expenses: | | | | |
| Research and development | 2,175,834 | 2,488,972 | 6,735,183 | 6 |
| General and administrative | 582,852 | 620,079 | 1,950,622 | 2 |
| | 2,758,686 | 3,109,051 | 8,685,805 | 9 |
| Other income and expense: | | | | |
| Interest income | 167,966 | 504,733 | 738,808 | 1 |
| Interest expense | -- | -- | -- | |
| | 167,966 | 504,733 | 738,808 | 1 |
| Net loss | \$ (2,590,720) | (2,604,318) | (7,946,997) | (7 |
| Net loss per basic and diluted share | \$ (0.18) | (0.18) | (0.56) | |
| Shares used in calculation of per share data | 14,265,875 | 14,263,003 | 14,265,875 | 14 |

See accompanying independent accountants' review report.

NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Statements of Shareholders' Equity (Deficit)

Nine month period ended February 28, 2002 and for the
period from June 19, 1985 (inception) through February 28, 2002

| | PREFERRED STOCK | | COMMON S |
|--|---------------------|---------------------|---------------------|
| | NUMBER OF SHARES | AGGREGATE AMOUNT | NUMBER OF SHARES |
| Issuance of common stock on August 27, 1985 | -- | \$ -- | 3,500,000 |
| Issuance of Series A convertible preferred stock at \$4.00 per share on August 27, 1985 (net of costs of issuance of \$79,150) | -- | -- | -- |

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| | | | |
|--|------|-------|-----------|
| Net loss | -- | -- | -- |
| | ---- | ----- | ----- |
| Balance at May 31, 1986 | -- | -- | 3,500,000 |
| Net loss | -- | -- | -- |
| Deferred compensation relating to grant of stock options | -- | -- | -- |
| Amortization of deferred compensation | -- | -- | -- |
| | ---- | ----- | ----- |
| Balance at May 31, 1987 | -- | -- | 3,500,000 |
| Issuance of Series B convertible preferred stock at \$35.68 per share on August 14, 1987 (net of costs of issuance of \$75,450) | -- | -- | -- |
| Net loss | -- | -- | -- |
| Amortization of deferred compensation | -- | -- | -- |
| | ---- | ----- | ----- |
| Balance at May 31, 1988 | -- | -- | 3,500,000 |
| Issuance of common stock at \$24.21 per share on June 7, 1988 (net of costs of issuance of \$246,000) | -- | -- | 413,020 |
| Conversion of Series A convertible preferred stock to common stock on June 7, 1988 | -- | -- | 1,250,000 |
| Conversion of Series B convertible preferred stock to common stock on June 7, 1988 | -- | -- | 1,003,165 |
| Exercise of stock options at \$2.00 per share | -- | -- | 47,115 |
| Issuance of common stock at \$28.49 per share on March 6, 1989 (net of costs of issuance of \$21,395) | -- | -- | 175,525 |
| Issuance of common stock at \$28.49 per share on March 30, 1989 (net of costs of issuance of \$10,697) | -- | -- | 87,760 |
| Sale of options at \$28.29 per share to purchase common stock at \$.20 per share on March 30, 1989 (net of costs of issuance of \$4,162) | -- | -- | -- |
| Net loss | -- | -- | -- |
| Deferred compensation relating to grant of stock options | -- | -- | -- |
| Amortization of deferred compensation | -- | -- | -- |
| | ---- | ----- | ----- |
| Balance at May 31, 1989 | -- | -- | 6,476,585 |
| Net loss | -- | -- | -- |
| Deferred compensation relating to grant of stock options | -- | -- | -- |
| Amortization of deferred compensation | -- | -- | -- |
| | ---- | ----- | ----- |
| Balance at May 31, 1990 | -- | -- | 6,476,585 |
| Net loss | -- | -- | -- |
| Amortization of deferred compensation | -- | -- | -- |
| | ---- | ----- | ----- |
| Balance at May 31, 1991 | -- | -- | 6,476,585 |
| Exercise of stock warrants at \$5.60 per share | -- | -- | 90,000 |
| Net loss | -- | -- | -- |
| Amortization of deferred compensation | -- | -- | -- |
| | ---- | ----- | ----- |
| Balance at May 31, 1992 | -- | -- | 6,566,585 |
| Exercise of stock warrants at \$7.14 per share | -- | -- | 15,000 |
| Issuance of common stock at \$15.19 per share on April 19, 1993 (net of costs of issuance of \$20,724) | -- | -- | 374,370 |
| Net loss | -- | -- | -- |
| Amortization of deferred compensation | -- | -- | -- |
| | ---- | ----- | ----- |
| Balance at May 31, 1993 | -- | -- | 6,955,955 |

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| | SERIES B CONVERTIBLE PREFERRED STOCK NUMBER OF SHARES | AGGREGATE AMOUNT | ADDITIONAL PAID-IN CAPITAL | DEFICIT ACCUMULATED DURING DEVELOPMENT STAGE |
|--|--|---------------------|----------------------------------|--|
| Issuance of common stock on August 27, 1985 | -- | \$ -- | (28,000) | -- |
| Issuance of Series A convertible preferred stock at \$4.00 per share on August 27, 1985 (net of costs of issuance of \$79,150) | -- | -- | 670,850 | -- |
| Net loss | -- | -- | -- | (607,000) |
| Balance at May 31, 1986 | -- | -- | 642,850 | (607,000) |
| Net loss | -- | -- | -- | (2,429,000) |
| Deferred compensation relating to grant of stock options | -- | -- | 2,340,000 | -- |
| Amortization of deferred compensation | -- | -- | -- | -- |
| Balance at May 31, 1987 | -- | -- | 2,982,850 | (3,037,000) |
| Issuance of Series B convertible preferred stock at \$35.68 per share on August 14, 1987 (net of costs of issuance of \$75,450) | 200,633 | 200,633 | 6,882,502 | -- |
| Net loss | -- | -- | -- | (3,057,000) |
| Amortization of deferred compensation | -- | -- | -- | -- |
| Balance at May 31, 1988 | 200,633 | 200,633 | 9,865,352 | (6,094,000) |
| Issuance of common stock at \$24.21 per share on June 7, 1988 (net of costs of issuance of \$246,000) | -- | -- | 9,749,870 | -- |
| Conversion of Series A convertible preferred stock to common stock on June 7, 1988 | -- | -- | 237,500 | -- |
| Conversion of Series B convertible preferred stock to common stock on June 7, 1988 | (200,633) | (200,633) | 190,601 | -- |
| Exercise of stock options at \$2.00 per share | -- | -- | 93,759 | -- |
| Issuance of common stock at \$28.49 per share on March 6, 1989 (net of costs of issuance of \$21,395) | -- | -- | 4,976,855 | -- |
| Issuance of common stock at \$28.49 per share on March 30, 1989 (net of costs of issuance of \$10,697) | -- | -- | 2,488,356 | -- |
| Sale of options at \$28.29 per share to purchase common stock at \$.20 per share on March 30, 1989 (net of costs of issuance of \$4,162) | -- | -- | 7,443,118 | -- |
| Net loss | -- | -- | -- | (791,000) |
| Deferred compensation relating to grant of stock options | -- | -- | 683,040 | -- |
| Amortization of deferred compensation | -- | -- | -- | -- |
| Balance at May 31, 1989 | -- | -- | 35,728,451 | (6,886,000) |
| Net loss | -- | -- | -- | (3,490,000) |

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| | | | | |
|--|-------|-------|------------|----------|
| Deferred compensation relating to grant of stock options | -- | -- | 699,163 | -- |
| Amortization of deferred compensation | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Balance at May 31, 1990 | -- | -- | 36,427,614 | (10,376, |
| Net loss | -- | -- | -- | (5,579, |
| Amortization of deferred compensation | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Balance at May 31, 1991 | -- | -- | 36,427,614 | (15,956, |
| Exercise of stock warrants at \$5.60 per share | -- | -- | 503,100 | -- |
| Net loss | -- | -- | -- | (7,006, |
| Amortization of deferred compensation | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Balance at May 31, 1992 | -- | -- | 36,930,714 | (22,962, |
| Exercise of stock warrants at \$7.14 per share | -- | -- | 106,890 | -- |
| Issuance of common stock at \$15.19 per share on April 19, 1993 (net of costs of issuance of \$20,724) | -- | -- | 5,663,710 | -- |
| Net loss | -- | -- | -- | (8,066, |
| Amortization of deferred compensation | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Balance at May 31, 1993 | -- | -- | 42,701,314 | (31,029, |
| | ----- | ----- | ----- | ----- |

NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Statements of Shareholders' Equity (Deficit), continued

Nine month period ended February 28, 2002 and for the period from June 19, 1985 (inception) through February 28, 2002

| | PREFERRED STOCK | | COMMON STOCK | |
|--|------------------|------------------|------------------|------------------|
| | NUMBER OF SHARES | AGGREGATE AMOUNT | NUMBER OF SHARES | AGGREGATE AMOUNT |
| | ----- | ----- | ----- | ----- |
| Net loss | -- | \$ -- | -- | \$ |
| Issuance of common stock at \$6.50 per share on May 26, 1994 (net of costs of issuance of \$2,061,149) | -- | -- | 2,500,000 | 25,000,000 |
| Cancellation of stock options | -- | -- | -- | -- |
| Amortization of deferred compensation | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Balance at May 31, 1994 | -- | -- | 9,455,955 | 94,559,555 |
| Net loss | -- | -- | -- | -- |
| Issuance of common stock at \$6.50 per share on June 20, 1994 (net of issuance costs of | -- | -- | -- | -- |

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| | | | | |
|--|-------|-------|------------|--------|
| \$172,500) | -- | -- | 375,000 | 3 |
| Exercise of stock options at \$7.14 per share | -- | -- | 10,000 | |
| Exercise of stock options at \$2.00 per share | -- | -- | 187,570 | 1 |
| Cancellation of stock options | -- | -- | -- | |
| Amortization of deferred compensation | -- | -- | -- | |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 1995 | -- | -- | 10,028,525 | 100 |
| Net loss | -- | -- | -- | |
| Issuance of common stock at \$17.75 per share on August 9, 1995 (net of issuance costs of \$3,565,125) | -- | -- | 2,925,000 | 29 |
| Issuance of common stock at \$17.75 per share on September 11, 1995 (net of issuance costs of \$423,23 | -- | -- | 438,750 | 4 |
| Exercise of stock options at \$2.00 per share | -- | -- | 182,380 | 1 |
| Exercise of stock options at \$6.38 per share | -- | -- | 1,500 | |
| Exercise of stock options at \$7.14 per share | -- | -- | 10,000 | |
| Cancellation of stock options | -- | -- | -- | |
| Amortization of deferred compensation | -- | -- | -- | |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 1996 | -- | -- | 13,586,155 | 135 |
| Net loss | -- | -- | -- | |
| Exercise of stock options at \$0.20 per share | -- | -- | 263,285 | 2 |
| Exercise of stock options at \$2.00 per share | -- | -- | 232,935 | 2 |
| Exercise of stock options at \$7.14 per share | -- | -- | 10,000 | |
| Amortization of deferred compensation | -- | -- | -- | |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 1997 | -- | -- | 14,092,375 | 140 |
| Net loss | -- | -- | -- | |
| Exercise of stock options at \$7.14 per share | -- | -- | 5,000 | |
| Amortization of deferred compensation | -- | -- | -- | |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 1998 | -- | -- | 14,097,375 | 140 |
| Net loss | -- | -- | -- | |
| Non-cash compensation | -- | -- | -- | |
| Exercise of stock options at \$7.14 per share | -- | -- | 17,500 | |
| Exercise of stock warrants at \$8.00 per share | -- | -- | 125,000 | 1 |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 1999 | -- | -- | 14,239,875 | 142 |
| Net loss | -- | -- | -- | |
| Non-cash compensation | -- | -- | -- | |
| Exercise of stock options at \$13.38 per share | -- | -- | 2,500 | |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 2000 | -- | -- | 14,242,375 | 142 |
| Net loss | -- | -- | -- | |
| Exercise of stock options at \$6.38 | -- | -- | 6,000 | |
| Exercise of stock options at \$10.81 | -- | -- | 17,500 | |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 2001 | -- | -- | 14,265,875 | \$ 142 |
| Net loss (unaudited) | -- | -- | -- | |
| | ---- | ---- | ----- | ----- |
| Balance at February 28, 2002 (unaudited) | -- | \$ -- | 14,265,875 | \$ 142 |
| | ===== | ===== | ===== | ===== |

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| | SERIES B CONVERTIBLE PREFERRED STOCK NUMBER OF SHARES | AGGREGATE AMOUNT | ADDITIONAL PAID-IN CAPITAL | DEFICI ACCUMULA DURING DEVELOPM STAGE |
|---|--|---------------------|----------------------------------|---|
| | ----- | ----- | ----- | ----- |
| Net loss | -- | \$ -- | -- | (7,363, |
| Issuance of common stock at \$6.50 per share on May 26, 1994 (net of costs of issuance of \$2,061,149) | -- | -- | 14,163,851 | -- |
| Cancellation of stock options | -- | -- | (85,400) | -- |
| Amortization of deferred compensation | -- | -- | -- | -- |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 1994 | -- | -- | 56,779,765 | (38,393, |
| Net loss | -- | -- | -- | (7,439, |
| Issuance of common stock at \$6.50 per share on June 20, 1994 (net of issuance costs of \$172,500) | -- | -- | 2,261,250 | -- |
| Exercise of stock options at \$7.14 per share | -- | -- | 71,300 | -- |
| Exercise of stock options at \$2.00 per share | -- | -- | 373,264 | -- |
| Cancellation of stock options | -- | -- | (106,750) | -- |
| Amortization of deferred compensation | -- | -- | -- | -- |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 1995 | -- | -- | 59,378,829 | (45,832, |
| Net loss | -- | -- | -- | (4,778, |
| Issuance of common stock at \$17.75 per share on August 9, 1995 (net of issuance costs of \$3,565,125) | -- | -- | 48,324,374 | -- |
| Issuance of common stock at \$17.75 per share on September 11, 1995 (net of issuance costs of \$423,23) | -- | -- | 7,360,187 | -- |
| Exercise of stock options at \$2.00 per share | -- | -- | 362,937 | -- |
| Exercise of stock options at \$6.38 per share | -- | -- | 9,555 | -- |
| Exercise of stock options at \$7.14 per share | -- | -- | 71,300 | -- |
| Cancellation of stock options | -- | -- | (80,062) | -- |
| Amortization of deferred compensation | -- | -- | -- | -- |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 1996 | -- | -- | 115,427,120 | (50,611, |
| Net loss | -- | -- | -- | (4,245, |
| Exercise of stock options at \$0.20 per share | -- | -- | 50,025 | -- |
| Exercise of stock options at \$2.00 per share | -- | -- | 463,540 | -- |
| Exercise of stock options at \$7.14 per share | -- | -- | 71,300 | -- |
| Amortization of deferred compensation | -- | -- | -- | -- |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 1997 | -- | -- | 116,011,985 | (54,856, |
| Net loss | -- | -- | -- | (5,883, |
| Exercise of stock options at \$7.14 per share | -- | -- | 35,650 | -- |
| Amortization of deferred compensation | -- | -- | -- | -- |
| | ---- | ---- | ----- | ----- |
| Balance at May 31, 1998 | -- | -- | 116,047,635 | (60,740, |
| Net loss | -- | -- | -- | (7,416, |
| Non-cash compensation | -- | -- | 14,354 | -- |
| Exercise of stock options at \$7.14 per share | -- | -- | 124,775 | -- |

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| | | | | |
|--|----|-------|-------------|----------|
| Exercise of stock warrants at \$8.00 per share | -- | -- | 998,750 | -- |
| Balance at May 31, 1999 | -- | -- | 117,185,514 | (68,156, |
| Net loss | -- | -- | -- | (9,167, |
| Non-cash compensation | -- | -- | 57,112 | -- |
| Exercise of stock options at \$13.38 per share | -- | -- | 33,425 | -- |
| Balance at May 31, 2000 | -- | -- | 117,276,051 | (77,323, |
| Net loss | -- | -- | -- | (10,174, |
| Exercise of stock options at \$6.38 | -- | -- | 38,220 | -- |
| Exercise of stock options at \$10.81 | -- | -- | 189,000 | -- |
| Balance at May 31, 2001 | -- | -- | 117,503,271 | (87,498, |
| Net loss (unaudited) | -- | -- | -- | (7,946, |
| Balance at February 28, 2002 (unaudited) | -- | \$ -- | 117,503,271 | (95,445, |

See accompanying independent accountants' review report

NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Statements of Cash Flows

Nine month period ended February 28, 2002 and February 28, 2001
and for the period from June 19, 1985 (inception) through February 28, 2002

| | NINE MONTH PERIOD ENDED | | CUMULATIVE PERIOD ENDING FEBRUARY 28, 2002 (UNAUDITED) |
|---|-------------------------------------|-------------------------------------|---|
| | FEBRUARY 28, 2002 (UNAUDITED) | FEBRUARY 28, 2001 (UNAUDITED) | |
| Cash flows from operating activities: | | | |
| Net loss | \$ (7,946,997) | (7,365,569) | (95,445,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 647,858 | 368,758 | 16,116,616 |
| Non-cash compensation | -- | -- | 3,425 |
| Loss on sale of equipment | -- | -- | -- |
| Changes in assets and liabilities: | | | |
| Prepaid expenses | 205,502 | 185,641 | (1,288,254) |
| Other current assets | 403,870 | (126,983) | -- |
| Other assets | 49,100 | (49,200) | -- |
| Accounts payable | (1,288,254) | 285,786 | -- |
| Accrued expenses | 17,560 | (24,458) | -- |

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| | | | |
|--|---------------|-------------|-------|
| Accrued compensation and benefits | 53,799 | 18,050 | |
| Other liabilities | 8,513 | 19,514 | |
| | ----- | ----- | --- |
| Net cash used in operating activities | (7,849,049) | (6,688,461) | (76) |
| | ----- | ----- | --- |
| Cash flows from investing activities: | | | |
| Purchase of property, plant, equipment, and capitalized engineering costs | (144,725) | (723,556) | (18) |
| Proceeds from matured marketable securities | 22,279,200 | 7,548,171 | 401 |
| Proceeds from sale of marketable securities | -- | -- | 7 |
| Purchase of marketable securities | (5,012,963) | (8,218,827) | (413) |
| Proceeds from sale of equipment | -- | -- | 1 |
| | ----- | ----- | --- |
| Net cash used in investing activities | 17,121,512 | (1,394,212) | (21) |
| | ----- | ----- | --- |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock | -- | 227,455 | 103 |
| Payment of common stock issuance costs | -- | -- | (5) |
| Proceeds from issuance of preferred stock | -- | -- | 6 |
| Proceeds from sale of stock options to purchase common shares | -- | -- | 7 |
| Proceeds from issuance of notes payable | -- | -- | 1 |
| Repayment of notes payable | -- | -- | |
| | ----- | ----- | --- |
| Net cash provided by financing activities | -- | 227,455 | 114 |
| | ----- | ----- | --- |
| Net increase (decrease) in cash | 9,272,463 | (7,855,218) | 15 |
| | ----- | ----- | --- |
| Cash at beginning of period | 6,435,540 | 15,154,295 | |
| | ----- | ----- | --- |
| Cash at end of period | \$ 15,708,003 | 7,299,077 | 15 |
| | ===== | ===== | == |

See accompanying independent accountants' review report.

NORTHFIELD LABORATORIES INC.
(a company in the development stage)

Notes to Financial Statements

February 28, 2002
(unaudited)

(1) BASIS OF PRESENTATION

The interim financial statements presented are unaudited but, in the opinion of management, have been prepared in conformity with accounting principles generally accepted in the United States of America applied on a basis consistent with those of the annual financial statements. Such interim financial statements reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. The results of operations for the interim period presented are not necessarily indicative of the results to be expected for the year ending May 31, 2002. The interim financial statements

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should be read in connection with the audited financial statements for the year ended May 31, 2001.

(2) COMPUTATION OF NET LOSS PER SHARE

Basic earnings per share is based on the weighted average number of shares outstanding and excludes the dilutive effect of unexercised common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of unexercised common stock equivalents. Because the Company reported a net loss for all periods presented, basic and diluted per share amounts are the same.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Since Northfield's incorporation in 1985, we have devoted substantially all of our efforts and resources to the research, development and clinical testing of our potential product, PolyHemeTM. We have incurred operating losses during each year of our operations since inception and expect to incur substantial additional operating losses for the next several years. From Northfield's inception through February 28, 2002, we have incurred operating losses totaling \$95,445,000.

Our success will depend on several factors, including our ability to obtain Food and Drug Administration ("FDA") regulatory approval of PolyHeme and our manufacturing facilities, obtain sufficient quantities of blood to manufacture PolyHeme in commercial quantities, manufacture and distribute PolyHeme in a cost-effective manner, and enforce our patent positions. We have experienced significant delays in the development and clinical testing of PolyHeme. We cannot ensure that we will be able to achieve these goals or that we will be able to realize product revenues or profitability on a sustained basis or at all.

In August 2001, we filed a Biologics License Application ("BLA") for PolyHeme with the FDA following the completion of our most recent clinical trials. In November 2001, we announced that we had received comments from the FDA's Center for Biologics Evaluation and Research ("CBER") on our BLA filing and that the agency was seeking additional information before accepting our application for filing. During the third quarter of fiscal 2002, our senior management met with members of the CBER staff and participated in a series of telephone conferences to discuss the CBER views on our BLA filing. These discussions clarified our understanding of the CBER position and have assisted us in developing appropriate

responses to the matters raised by the CBER. While forecasting a definitive timeline for resolution of the open issues with the CBER is difficult, we believe we will adequately address their concerns. If our response to the CBER is unacceptable, we may be required to conduct an additional clinical study to support our current filing. The character, size and duration of that study are currently unknown. Whether an additional study to support the current filing is required or not, we would anticipate continuing clinical studies to expand the marketing indications for PolyHeme. We do not expect to conduct additional studies of PolyHeme until we reach an understanding with the CBER regarding the status of our BLA filing.

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We anticipate that research and development expenses will increase during the foreseeable future. These expected increases are attributable to additional clinical trials to expand the indications for which PolyHeme may be marketed, monitoring and reporting the results of these trials and continuing process development associated with improving our manufacturing capacity to permit commercial-scale production of PolyHeme. We expect that general and administrative expenses will increase over the foreseeable future as a result of increased costs relating to the expansion of our organization in support of anticipated commercial operations.

RESULTS OF OPERATIONS

We reported no revenues for either the three-month or nine-month periods ended February 28, 2002 or 2001. From Northfield's inception through February 28, 2002, we have reported total revenues of \$3,000,000, all of which were derived from licensing fees.

OPERATING EXPENSES

Operating expenses for our third fiscal quarter ended February 28, 2002 totaled \$2,759,000, a decrease of \$350,000 from the \$3,109,000 reported in the third quarter of the prior year. Measured on a percentage basis, operating expenses in the third quarter of fiscal 2002 decreased by 11.3%. Expenses incurred in the prior fiscal year for conducting, monitoring and reporting clinical trials have been significantly reduced as the trials in process during the third fiscal quarter of the prior year have been completed. Except for the infusion of PolyHeme in individual compassionate use cases, Northfield is not currently enrolling additional patients in clinical trials.

Research and development expenses for the third quarter of the current fiscal year totaled \$2,176,000, a decrease of \$313,000, or 12.6%, from the \$2,489,000 reported in the third quarter of the prior fiscal year. This expense reduction was directly related to the completion of clinical trials and the subsequent monitoring, data analysis and report preparation.

Research and development expenses for the nine-month period ended February 28, 2002, totaled \$6,735,000, a decrease of \$229,000, or 3.3%, from the \$6,964,000 reported in the comparable prior year period. Lower expenses associated with conducting clinical trials caused the variance. We anticipate that our research and development expenses for the fourth quarter of fiscal 2002 will approximate those reported for the third quarter.

General and administration expenses in the third quarter of fiscal 2002 totaled \$583,000 compared to \$620,000 for third quarter of fiscal 2001. This decrease of \$37,000, or 6.0%, was primarily the result of reduced professional fees.

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General and administration expenses for the nine-month period ended February 28, 2002 totaled \$1,951,000, which represents a decrease of \$97,000, or 4.7%, from the \$2,048,000 in general and administrative expenses incurred during the nine-month period ended February 28, 2001. This decrease was primarily the result of reduced professional fees in the current fiscal year.

During the fourth quarter of the current fiscal year, we anticipate that general and administrative expenses will only modestly increase. We plan to limit significant increases in our general and administrative expenses until we reach an understanding with the FDA regarding the status of our BLA filing for PolyHeme.

INTEREST INCOME

Interest income in the third quarter of fiscal 2002 totaled \$168,000, or a \$337,000 decrease from the \$505,000 in interest income reported in the third quarter of fiscal 2001. Significantly lower interest rates in fiscal 2002 along with lower available investment balances accounted for the decrease. Maturing investments which were yielding in excess of 6% are now

being reinvested at 2 to 3%. In the absence of a major cash infusion, interest income will continue to be significantly below prior year levels.

Interest income for the nine-month period ended February 28, 2002 totaled \$739,000, or a \$907,000 decrease from the \$1,646,000 in interest income earned in the comparable prior year period. From May 31, 2001 through February 28, 2002, available investment balances decreased by \$7,994,000. This investment balance decrease combined with a reduction in short-term interest rates of 300 to 400 basis points combined to cause interest income to decline.

NET LOSS

Our net loss for the third quarter ended February 28, 2002 was \$2,591,000, or \$.18 per basic share, compared to a net loss of \$2,604,000, or \$.18 per basic and diluted share, for the third quarter ended February 28, 2001. The decrease in the loss per basic and diluted share is primarily the result of a decrease in clinical trial expenses.

For the nine-month period ended February 28, 2002, Northfield reported a loss of \$7,947,000, or \$.56 per basic share, compared to a loss of \$7,366,000, or \$.52 per basic share, in the comparable prior year period. The increased loss was primarily due to the significant reduction in interest income.

LIQUIDITY AND CAPITAL RESOURCES

From Northfield's inception through February 28, 2002, we have used cash for operating activities and for the purchase of property, plant, equipment

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and engineering services in the amount of \$95,283,000. For the nine-month periods ended February 28, 2002 and 2001, these cash expenditures totaled \$7,994,000 and \$7,412,000, respectively. The increased cash outlay for the first nine-months of fiscal 2002 compared to the comparable prior year period is reflective of increased operating losses and a reduction in accounts payable balances, which more than offset a reduction in fixed asset purchases.

We have financed our research and development and other activities to date primarily through the public and private sale of equity securities and, to a more limited extent, through the licensing of product rights. As of February 28, 2002, we had cash and marketable securities totaling \$20,705,000.

At current spending levels, we believe our existing capital resources will be adequate to satisfy our operating capital requirements and maintain our existing pilot manufacturing plant and office facilities for approximately 6-8 quarters. Thereafter, we are likely to require substantial additional capital to continue our operations. Our requirements for and ability to obtain additional capital are likely to be significantly affected by the outcome of our discussions with the FDA regarding the status of our BLA filing for PolyHeme.

We are currently unable to fund the construction of a large-scale greenfield manufacturing facility, which is estimated to cost approximately \$55-60 million, without raising substantial additional capital. Currently, we have manufacturing capacity of approximately 10,000 units. Initial engineering studies to expand our manufacturing capacity through build-out in the leased space adjacent to our existing manufacturing facility is completed. This engineering indicates an additional capacity of 75,000 units could be developed in approximately 16 to 20 months at a cost of \$28 to \$32 million. Like a large-scale greenfield manufacturing facility, significant additional funding will be required before the smaller scale expansion facility could be completed. Northfield has not yet committed to the build-out. We view the smaller facility as financially prudent yet large enough for commercial viability. We estimate that we will require at least \$40 million in additional funding to build a smaller scale expansion facility (75,000 unit), fund the subsequent working capital needs and support an expanded manufacturing, sales and marketing organization.

We may issue additional equity or debt securities to the public or enter into collaborative arrangements with strategic partners, which could provide us with additional funding or absorb expenses we would otherwise be required to pay. Any one or a combination of these sources may be utilized to raise the required funding. However, business or market conditions may not be favorable, which may be detrimental to our ability to raise capital on terms acceptable to the Company, if at all. Inability to raise sufficient levels of capital would cause a delay in full commercialization of our product upon approval by the FDA.

Our capital requirements may vary materially from those now anticipated because of the results of our clinical testing of PolyHeme, the establishment of relationships with strategic partners, changes in the scale, timing or cost of our commercial manufacturing facility, competitive and technological advances, the FDA regulatory process, changes in our marketing and distribution strategy and other factors.

CRITICAL ACCOUNTING POLICIES

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The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. The Company believes the following critical accounting policy affects its more significant judgments and estimates used in the preparation of its consolidated financial statements:

NET DEFERRED TAX ASSETS VALUATION

The Company records its net deferred tax assets in the amount that it expects to realize based on projected future taxable income. In assessing the appropriateness of its valuation, assumptions and estimates are required such as the Company's ability to generate future taxable income. In the event that the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. As of February 28, 2002 the Company has recorded a 100 percent valuation allowance against its deferred tax asset.

CONTRACTUAL OBLIGATIONS

The following table reflects a summary of the company's contractual cash obligations as of February 28, 2002:

| Contractual Cash Obligations | Total | Less Than One Year | 1-3 Years | 4 |
|------------------------------------|-----------|-----------------------|-----------|-------|
| | ----- | ----- | ----- | ----- |
| Lease Obligations(1) | 2,870,841 | 835,633 | 1,503,988 | |
| Other Obligations | 1,521,956 | 830,158 | 691,798 | |
| | ----- | ----- | ----- | ----- |
| Total Contractual Cash Obligations | 4,392,797 | 1,665,791 | 2,195,786 | |

(1) Northfields Evanston lease agreement is cancellable with six months notice combined with a termination payment equal to six months base rent and six months of additional rental payments. If the lease were terminated today the termination payment would be \$315,530.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The marketable security investments of the Company have been made for investment (as opposed to trading) purposes. Interest rate risk with respect to the investments of the Company is not significant as all such investments are in U.S. dollar cash equivalents and short-term investments (with maturities of less than 12 months), which are by their nature less sensitive to interest rate movements. The investments of the Company are generally made in U.S. government and federal agency bonds, high-grade commercial paper, corporate bonds and certificates of deposit.

PART II. OTHER INFORMATION

Item 6. Exhibits

a) Exhibit 15 - Acknowledgement of Independent Certified Public Accountants

b) None.

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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, on this April 11, 2002.

NORTHFIELD LABORATORIES INC.

By: /s/ RICHARD E. DEWOSKIN

Richard E. DeWoskin
Chairman of the Board and
Chief Executive Officer

By: /s/ JACK J. KOGUT

Jack J. Kogut
Secretary and Treasurer
(principal financial officer and
principal accounting officer)