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NORTHFIELD LABORATORIES INC /DE/
Form 10-Q
January 12, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE PERIOD ENDED NOVEMBER 30, 2000

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 NOVEMBER 30, 2000, REGISTRANT HAD 14,242,375 SHARES OF COMMON STOCK
OUTSTANDING

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Part I. Financial Information

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

Financial Statements

November 30, 2000

(See accompanying Review Report of KPMG LLP)

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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 November 30, 2000, and the related statements of operations for the three-month period ended November 30, 2000 and 1999, and statements of operations and cash flows for the six-month periods ended November 30, 2000 and 1999 and for the period from June 19, 1985 (inception) through November 30, 2000. We have also reviewed the statements of shareholders' equity (deficit) for the six-month period ended November 30, 2000 and for the period from June 19, 1985 (inception) through November 30, 2000. 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, 2000, 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, 2000 (not presented herein); and in our report dated June 29, 2000, 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, 2000 and in the accompanying statement of shareholders' equity (deficit) is fairly stated, in all material respects, in relation to the statement from which it has been derived.

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/s/ KPMG LLP

December 13, 2000

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

Balance Sheets

November 30, 2000 (unaudited) and May 31, 2000

Assets	NOVEMBER 30, 2000	MAY 31, 2000
	-----	-----
Current assets:		
Cash	\$ 9,558,775	15,154,2
Short-term marketable securities	23,771,046	23,129,3
Prepaid expenses	273,276	409,2
Other current assets	532,291	505,5
	-----	-----
Total current assets	34,135,388	39,198,4
Property, plant, and equipment, net	2,808,929	2,455,7
Other assets	123,028	74,3
	-----	-----
	\$ 37,067,345	41,728,4
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,214,458	1,061,3
Accrued expenses	91,408	174,0
Accrued compensation and benefits	267,172	250,5
	-----	-----
Total current liabilities	1,573,038	1,485,9
Other liabilities	160,726	147,7
	-----	-----
Total liabilities	1,733,764	1,633,6
	-----	-----
Shareholders' equity:		
Preferred stock, \$.01 par value. Authorized 5,000,000 shares;		

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none issued and outstanding	--	--
Common stock, \$.01 par value. Authorized 30,000,000 shares; issued and outstanding 14,242,375 shares at November 30, 2000 and May 31, 2000, respectively	142,424	142,424
Additional paid-in capital	117,276,051	117,276,051
Deficit accumulated during the development stage	(82,084,894)	(77,323,600)
	-----	-----
Total shareholders' equity	35,333,581	40,094,851
	-----	-----
	\$ 37,067,345	41,728,401
	=====	=====

See accompanying independent accountants' review report.

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

Statements of Operations

Three and six months ended November 30, 2000 and 1999 and for the period from June 19, 1985 (inception) through November 30, 2000

	THREE MONTHS ENDED NOVEMBER 30,		SIX MONTHS ENDED NOVEMBER 30,	
	2000	1999	2000	1999
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
Revenues - license income	\$ --	--	--	--
Costs and expenses:				
Research and development	2,237,122	2,362,427	4,474,704	4,486,630
General and administrative	557,627	523,505	1,427,503	1,008,300
	-----	-----	-----	-----
	2,794,749	2,885,932	5,902,207	5,494,930
	-----	-----	-----	-----
Other income and expense:				
Interest income	551,418	579,291	1,140,956	1,149,150
Interest expense	--	--	--	--
	-----	-----	-----	-----
	551,418	579,291	1,140,956	1,149,150
	-----	-----	-----	-----
Net loss	\$ (2,243,331)	(2,306,641)	(4,761,251)	(4,345,780)
	=====	=====	=====	=====

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Net loss per basic share	\$	(0.16)	(0.16)	(0.33)	(0.33)
		=====	=====	=====	=====
Shares used in calculation of per share data		14,242,375	14,239,875	14,242,375	14,239,875
		=====	=====	=====	=====

See accompanying independent accountants' review report.

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

Statements of Shareholders' Equity (Deficit)

Three and six months ended November 30, 2000 and 1999 and for the period from June 19, 1985 (inception) through November 30, 2000

	Preferred s	
	Number	Agg
	of shares	a
	-----	-----
Issuance of common stock on August 27, 1985	--	\$
Issuance of Series A convertible preferred stock at \$4.00 per share on August 27, 1985 (net of costs of issuance of \$79,150)	--	
Net loss	--	
	-----	-----
Balance at May 31, 1986	--	
Net loss	--	
Deferred compensation relating to grant of stock options	--	
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1987	--	
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	--	
Issuance of common stock at \$24.21 per share on June 7, 1988 (net of costs of issuance of \$246,000)	--	
Conversion of Series A convertible preferred stock to common stock on June 7, 1988	--	
Conversion of Series B convertible preferred stock to common stock on June 7, 1988	--	
Exercise of stock options at \$2.00 per share	--	
Issuance of common stock at \$28.49 per share on March 6, 1989 (net of costs of issuance of \$21,395)	--	
Issuance of common stock at \$28.49 per share on March 30, 1989 (net of costs of issuance of \$10,697)	--	
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	--	

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Deferred compensation relating to grant of stock options	--	
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1989	--	
Net loss	--	
Deferred compensation relating to grant of stock options	--	
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1990	--	
Net loss	--	
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1991	--	
Exercise of stock warrants at \$5.60 per share	--	
Net loss	--	
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1992	--	
Exercise of stock warrants at \$7.14 per share	--	
Issuance of common stock at \$15.19 per share on April 19, 1993 (net of costs of issuance of \$20,724)	--	
Net loss	--	
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1993	--	

See accompanying independent accountants' review report.

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

Statements of Shareholders' Equity (Deficit) (continued)

Six months ended November 30, 2000 and for the
period from June 19, 1985 (inception) through November 30, 2000

	Series A con preferred	A
	-----	-----
	Number	A
	of shares	of shares
	-----	-----
Issuance of common stock on August 27, 1985	--	\$
Issuance of Series A convertible preferred stock at \$4.00 per share on August 27, 1985 (net of costs of issuance of \$79,150)	250,000	
Net loss	--	
	-----	-----

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Balance at May 31, 1986	250,000
Net loss	--
Deferred compensation relating to grant of stock options	--
Amortization of deferred compensation	--

Balance at May 31, 1987	250,000
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	250,000
Issuance of common stock at \$24.21 per share on June 7, 1988 (net of costs of issuance of \$246,000)	--
Conversion of Series A convertible preferred stock to common stock on June 7, 1988	(250,000)
Conversion of Series B convertible preferred stock to common stock on June 7, 1988	--
Exercise of stock options at \$2.00 per share	--
Issuance of common stock at \$28.49 per share on March 6, 1989 (net of costs of issuance of \$21,395)	--
Issuance of common stock at \$28.49 per share on March 30, 1989 (net of costs of issuance of \$10,697)	--
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	--
Net loss	--
Deferred compensation relating to grant of stock options	--
Amortization of deferred compensation	--

Balance at May 31, 1990	--
Net loss	--
Amortization of deferred compensation	--

Balance at May 31, 1991	--
Exercise of stock warrants at \$5.60 per share	--
Net loss	--
Amortization of deferred compensation	--

Balance at May 31, 1992	--
Exercise of stock warrants at \$7.14 per share	--
Issuance of common stock at \$15.19 per share on April 19, 1993 (net of costs of issuance of \$20,724)	--
Net loss	--
Amortization of deferred compensation	--

Balance at May 31, 1993	--

(Continued)

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

Statements of Shareholders' Equity (Deficit) (continued)

Six months ended November 30, 2000 and for the
period from June 19, 1985 (inception) through November 30, 2000

	Additional paid-in capital	D acc dur dev
	-----	-----
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	--	
	-----	-----
Balance at May 31, 1986	642,850	
Net loss	--	(2)
Deferred compensation relating to grant of stock options	2,340,000	
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1987	2,982,850	(3)
Issuance of Series B convertible preferred stock at \$35.68 per share on August 14, 1987 (net of costs of issuance of \$75,450)	6,882,502	
Net loss	--	(3)
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1988	9,865,352	(6)
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	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	--	
Deferred compensation relating to grant of stock options	683,040	
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1989	35,728,451	(6)
Net loss	--	(3)
Deferred compensation relating to grant of stock options	699,163	
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1990	36,427,614	(10)

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Net loss	--	(5)
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1991	36,427,614	(15)
Exercise of stock warrants at \$5.60 per share	503,100	
Net loss	--	(7)
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1992	36,930,714	(22)
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)
Amortization of deferred compensation	--	
	-----	-----
Balance at May 31, 1993	42,701,314	(31)
	-----	-----

(Continued)

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

Statements of Shareholders' Equity (Deficit) (continued)

Six months ended November 30, 2000 and for the period from June 19, 1985 (inception) through November 30, 2000

	PREFERRED STOCK		COMMON S
	NUMBER OF SHARES	AGGREGATE AMOUNT	NUMBER OF SHARES
	-----	-----	-----
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
Cancellation of stock options	--	--	--
Amortization of deferred compensation	--	--	--
	-----	-----	-----
Balance at May 31, 1994	--	--	9,455,955
Net loss	--	--	--
Issuance of common stock at \$6.50 per share on June 20, 1994 (net of issuance costs of \$172,500)	--	--	375,000
Exercise of stock options at \$7.14 per share	--	--	10,000
Exercise of stock options at \$2.00 per share	--	--	187,570
Cancellation of stock options	--	--	--
Amortization of deferred compensation	--	--	--
	-----	-----	-----

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Balance at May 31, 1995	--	--	10,028,525
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
Issuance of common stock at \$17.75 per share on September 11, 1995 (net of issuance costs of \$423,23)	--	--	438,750
Exercise of stock options at \$2.00 per share	--	--	182,380
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
Net loss	--	--	--
Exercise of stock options at \$0.20 per share	--	--	263,285
Exercise of stock options at \$2.00 per share	--	--	232,935
Exercise of stock options at \$7.14 per share	--	--	10,000
Amortization of deferred compensation	--	--	--
	-----	-----	-----
Balance at May 31, 1997	--	--	14,092,375
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
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
	-----	-----	-----
Balance at May 31, 1999	--	--	14,239,875
Net loss	--	--	--
Non-cash compensation	--	--	--
Exercise of stock options at \$13.38 per share	--	--	2,500
	-----	-----	-----
Balance at May 31, 2000	--	--	14,242,375
Net loss (unaudited)	--	--	--
	-----	-----	-----
Balance at November 30, 2000 (unaudited)	--	\$ --	14,242,375
	=====	=====	=====

See accompanying independent accountants' review report.

(Continued)

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period from June 19, 1985 (inception) through November 30, 2000

	SERIES B CONVERTIBLE PREFERRED STOCK		ADDITIONAL	D
	NUMBER OF SHARES	AGGREGATE AMOUNT	PAID-IN CAPITAL	ACC DUR DEV
Net loss	--	\$ --	--	(7)
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)
Net loss	--	--	--	(7)
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)
Net loss	--	--	--	(4)
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)
Net loss	--	--	--	(4)
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)
Net loss	--	--	--	(5)
Exercise of stock options at \$7.14 per share	--	--	35,650	
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1998	--	--	116,047,635	(60)
Net loss	--	--	--	(7)
Non-cash compensation	--	--	14,354	
Exercise of stock options at \$7.14 per share	--	--	124,775	
Exercise of stock warrants at \$8.00 per share	--	--	998,750	

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Balance at May 31, 1999	--	--	117,185,514	(68)
Net loss	--	--	--	(9)
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)
Net loss (unaudited)	--	--	--	(4)
Balance at November 30, 2000 (unaudited)	--	\$	117,276,051	(82)

(Continued)

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

Statements of Cash Flows

Six months ended November 30, 2000 and 1999 and for the period
from June 19, 1985 (inception) through November 30, 2000

	SIX MONTHS ENDED NOVEMBER 30,		CUMULATIVE FR JUNE 19, 1985 THRU NOVEMBER 30,
	2000 (UNAUDITED)	1999 (UNAUDITED)	NOVEMBER 30, 2000 (UNAUDITED)
Cash flows from operating activities:			
Net loss	\$ (4,761,251)	(4,345,782)	(8,107,033)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	247,005	195,277	442,282
Non-cash compensation	--	74,328	74,328
Loss on sale of equipment	--	--	--
Changes in assets and liabilities:			
Prepaid expenses	135,994	115,978	251,972
Other current assets	(26,719)	(185,584)	(212,303)
Other assets	(49,200)	--	(49,200)
Accounts payable	153,091	283,935	437,026
Accrued expenses	(82,601)	(36,298)	(118,899)
Accrued compensation and benefits	16,602	34,404	51,006
Other liabilities	13,009	10,006	23,015
Net cash used in operating activities	(4,354,070)	(3,853,736)	(8,207,806)
Cash flows from investing activities:			

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Purchase of property, plant, equipment, and capitalized engineering costs	(599,728)	(1,532,874)	(1
Proceeds from matured marketable securities	5,774,561	3,549,200	36
Proceeds from sale of marketable securities	--	--	
Purchase of marketable securities	(6,416,283)	(4,954,654)	(39
Proceeds from sale of equipment	--	1,786,436	
	-----	-----	-----
Net cash used in investing activities	(1,241,450)	(1,151,892)	(3
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from issuance of common stock	--	--	10
Payment of common stock issuance costs	--	--	(
Proceeds from issuance of preferred stock	--	--	
Proceeds from sale of stock options to purchase common shares	--	--	
Proceeds from issuance of notes payable	--	--	
Repayment of notes payable	--	--	
	-----	-----	-----
Net cash provided by financing activities	--	--	11
	-----	-----	-----
Net increase (decrease) in cash	(5,595,520)	(5,005,628)	
Cash at beginning of period	15,154,295	25,855,668	
	-----	-----	-----
Cash at end of period	\$ 9,558,775	20,850,040	
	=====	=====	=====

See accompanying independent accountants' review report.

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

Notes to Financial Statements

November 30, 2000

(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

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May 31, 2001. The interim financial statements should be read in connection with the audited financial statements for the year ended May 31, 2000.

(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, per share amounts reflect the use of the Basic method only.

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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, PolyHeme(TM). 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 November 30, 2000, we have incurred operating losses totaling \$82,085,000.

Our success will depend on several factors, including our ability to obtain Food & Drug Administration 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.

We anticipate that research and development expenses will increase during the foreseeable future. These expected increases are attributable to anticipated future clinical trials, 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 due to increased expenses relating to the expansion of our organization in support of expanded commercial operations.

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RESULTS OF OPERATIONS

We reported no revenues for either of the three-month periods ended November 30, 2000 or 1999. From Northfield's inception through November 30, 2000, we have reported total revenues of \$3,000,000, all of which were derived from licensing fees.

OPERATING EXPENSES

Operating expenses for our second fiscal quarter ended November 30, 2000 totaled \$2,795,000, a decrease of \$91,000 from the \$2,886,000 reported in the second quarter of the prior fiscal year. Measured on a percentage basis, total expenses in the second quarter of fiscal 2001 decreased by 3.2%. This decrease was due to the lower costs of conducting our clinical trials.

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Research and development expenses for the second quarter of fiscal 2001 totaled \$2,237,000, a decrease of \$125,000, or 5.3%, from the \$2,362,000, reported in the second quarter of fiscal 2000. The majority of the decrease in research and development expenses resulted from reduced costs associated with our clinical trials, offsetting cost increases in labor and purchased services. The clinical trials continue to shift from field work in the hospitals to data accumulation and analysis resulting in lower period costs. Phase II and Phase III trials remain active in the field, but patient accrual has slowed.

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For the six-month period ended November 30, 2000, research and development expenses of \$4,475,000 was nearly identical to the \$4,487,000 of expense incurred in the comparable prior year period. Within the totals, significant line item variations exist. Higher employment levels and salary increases have pushed labor costs up while purchased services have decreased as a 3rd party viral inactivation study conducted during the first half of the last fiscal year has not been repeated. Clinical trial expenses have also decreased.

We anticipate that research and development expenses will remain stable over the balance of the fiscal year. Beyond that, we expect these expenses to increase significantly. Additional costs are being planned for additional multi-center clinical trials, third party clinical monitoring, biostatistical analysis, report preparation, expanding our manufacturing organization and developing additional sources of hemoglobin.

General and administrative expenses in the second quarter of fiscal 2001 totaled \$558,000 compared to expenses of \$524,000 in the second quarter of 2000, representing an increase of \$34,000, or 6.5%. The increase was due to costs associated with the contested proxy for the election of directors.

General and administrative expenses for the six-month period ended November 30, 2000 totaled \$1,428,000, which represents a \$420,000, or 41.7%, increase from the \$1,008,000 in the comparable prior year period. All of the increase was due to costs associated with the contested proxy for the election of directors.

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INTEREST INCOME

Interest income in the second quarter of fiscal 2001 totaled \$551,000, or a \$28,000 decrease from the \$579,000 in interest income reported in the second quarter of fiscal 2000. Higher interest rates in fiscal 2001 somewhat offset lower available investment balances to account for the decrease. Interest income is expected to remain below prior year levels for the remainder of fiscal 2001 as we continue to utilize our existing cash resources to fund our business.

Interest income for the six-month period ended November 30, 2000 totaled \$1,141,000, or an \$8,000 decrease from the comparable prior year period. Higher interest rates in the current fiscal year offset declining investment balances and combined to cause a modest decrease in interest income.

NET LOSS

The net loss for the second quarter ended November 30, 2000 was \$2,243,000, or \$.16 per basic share, compared to a net loss of \$2,307,000, or \$.16 per basic share, for the second quarter ended November 30, 1999.

For the six-month period ended November 30, 2000, Northfield reported a

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loss of \$4,761,000, or \$.33 per basic share, compared to the comparable prior year period results of a

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loss of \$4,346,000, or \$.31 per basic share. Higher general and administrative expenses related to the contested proxy for the election of directors were the primary reason for the increased per basic share loss.

LIQUIDITY AND CAPITAL RESOURCES

From Northfield's inception through November 30, 2000, we have used cash for operating activities and for the purchase of engineering services and property, plant and equipment in the amount of \$82,430,000. For the six-month periods ended November 30, 2000 and 1999, these cash expenditures totaled \$4,954,000, and \$ 5,387,000, respectively. The decreased cash outlay for fiscal 2001 compared to the comparable prior year period reflects a decreased level of capital spending.

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 November 30, 2000, we had cash and marketable securities totaling \$33,330,000.

We believe our existing capital resources will be adequate to satisfy our operating capital requirements and maintain our existing manufacturing plant and office facilities for approximately the next 24-36 months. Thereafter, we are likely to require substantial additional capital to continue our operations. We are currently unable to fund the construction of a large-scale greenfield manufacturing facility, which is estimated to cost approximately \$45 million, without raising

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substantial additional capital. Currently, we have manufacturing capacity of approximately 10,000 units annually. Initial engineering on the leased space adjacent to our existing manufacturing facility is completed. This engineering indicates an additional annual capacity of approximately 75,000 units could be developed in approximately 16-18 months at an estimated cost of \$23-26 million. Without additional funding, the build-out of the adjacent space would reduce the estimated life of our existing cash resources to less than one year. Northfield has not yet committed to the build-out. We view the smaller facility as financially prudent yet large enough for commercial viability.

We may enter into collaborative arrangements with strategic partners which could provide us with additional funding or absorb expenses we would otherwise be required to pay. We have engaged in discussions with a number of potential strategic partners. These discussions are at various stages and we cannot ensure that any of these arrangements will be consummated.

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.

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PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 10-Q

EXHIBIT 15 - Letter RE: Unaudited Interim Financial Information

(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 January 12, 2001.

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)