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NORTHFIELD LABORATORIES INC /DE/
Form 10-Q
October 15, 2001

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 AUGUST 31, 2001

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 AUGUST 31, 2001, 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 August 31, 2001, and the related statements of operations and cash flows for the three-month periods ended August 31, 2001 and 2000 and for the period from June 19, 1985 (inception) through August 31, 2001. We have also reviewed the statements of shareholders' equity (deficit) for the three-month period ended August 31, 2001 and for the period from June 19, 1985 (inception) through August 31, 2001. 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) is fairly stated, in all material respects, in relation to the statement from which it has been derived.

/s/ KPMG LLP

October 1, 2001
Chicago, Illinois

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

Balance Sheets

August 31, 2001 and May 31, 2001

ASSETS

AUGUST 31,
2001

MAY 31,
2001

(unaudited)

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Current assets:		
Cash	\$ 4,491,306	6,435,
Marketable securities	21,583,289	22,262,
Prepaid expenses	269,817	378,
Other current assets	145,896	455,
	-----	-----
Total current assets	26,490,308	29,532,
Property, plant, and equipment, net	2,694,355	2,847,
Other assets	122,269	122,
	-----	-----
	\$ 29,306,932	32,502,
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,075,921	1,772,
Accrued expenses	462,058	153,
Accrued compensation and benefits	641,233	261,
	-----	-----
Total current liabilities	2,179,212	2,187,
Other liabilities	170,614	166,
	-----	-----
Total liabilities	2,349,826	2,354,
	-----	-----
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 at August 31, 2001 and May 31, 2001	142,659	142,
Additional paid-in capital	117,503,271	117,503,
Deficit accumulated during the development stage	(90,688,824)	(87,498,2
	-----	-----
Total shareholders' equity	26,957,106	30,147,
	-----	-----
	\$ 29,306,932	32,502,
	=====	=====

See accompanying notes to financial statements.

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

Statements of Operations

Three months ended August 31, 2001 and 2000 and for the period
from June 19, 1985 (inception) through August 31, 2001

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	Three months ended August 31,		Cumulative from June 19, 1985 through August 31, 2001
	2001 (unaudited)	2000 (unaudited)	(unaudited)
Revenues - license income	\$ --	--	3,000,000
Costs and expenses:			
Research and development	2,648,674	2,237,582	81,226,079
General and administrative	842,960	869,876	35,099,673
	3,491,634	3,107,458	116,325,752
Other income and expense:			
Interest income	301,062	589,538	22,720,162
Interest expense	--	--	83,234
	301,062	589,538	22,636,928
Net loss	\$ (3,190,572)	(2,517,920)	(90,688,824)
Net loss per share - basic and diluted	\$ (0.22)	(0.18)	(9.67)
Shares used in calculation of per share data - basic and diluted	14,265,875	14,242,375	9,382,806

See accompanying notes to financial statements.

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

Statements of Shareholders' Equity (Deficit)

Three months ended August 31, 2001 and for the period
from June 19, 1985 (inception) through August 31, 2001

	Common stock			
	Number of shares	Aggregate amount	Number of shares	Agg am
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				

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issuance of \$79,150)	--	--	--
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	--	--	--
	-----	-----	-----

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Balance at May 31, 1993	--	\$	--	6,955,955	\$
	-----		-----	-----	-----

	Series B convertible preferred stock		Additional paid-in capital
	Number of shares	Aggregate amount	
	-----	-----	-----
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	--	--	--
Deferred compensation relating to grant of stock options	--	--	2,340,000
Amortization of deferred compensation	--	--	--
	-----	-----	-----
Balance at May 31, 1987	--	--	2,982,850
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	--	--	--

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Amortization of deferred compensation	--	--	--
Balance at May 31, 1988	200,633	200,633	9,865,352
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	--	--	--
Deferred compensation relating to grant of stock options	--	--	683,040
Amortization of deferred compensation	--	--	--
Balance at May 31, 1989	--	--	35,728,451
Net loss	--	--	--
Deferred compensation relating to grant of stock options	--	--	699,163
Amortization of deferred compensation	--	--	--
Balance at May 31, 1990	--	--	36,427,614
Net loss	--	--	--
Amortization of deferred compensation	--	--	--
Balance at May 31, 1991	--	--	36,427,614
Exercise of stock warrants at \$5.60 per share	--	--	503,100
Net loss	--	--	--
Amortization of deferred compensation	--	--	--
Balance at May 31, 1992	--	--	36,930,714
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	--	--	--
Amortization of deferred compensation	--	--	--
Balance at May 31, 1993	-- \$	--	42,701,314

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

Statements of Shareholders' Equity (Deficit)

Three months ended August 31, 2001 and for the
period from June 19, 1985 (inception) through August 31, 2001

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	PREFERRED STOCK		COMMON
	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	--	--	--
	-----	-----	-----
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 \$423,238)	--	--	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	--	--	--

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Exercise of stock options at \$13.38 per share	--	--	2,500
	-----	-----	-----
Balance at May 31, 2000	--	--	14,242,375
Net loss	--	--	--
Non-cash compensation	--	--	--
Exercise of stock options at \$6.38 per share	--	--	6,000
Exercise of stock options at \$10.81 per share	--	--	17,500
	-----	-----	-----
Balance at May 31, 2001	--	\$ --	14,265,875
	-----	-----	-----
Net loss (unaudited)	--	--	--
Balance at August 31, 2001 (unaudited)	--	\$ --	14,265,875
	=====	=====	=====

See accompanying notes to financial statements.

	SERIES B CONVERTIBLE PREFERRED STOCK		ADDITIONAL
	NUMBER	AGGREGATE	PAID-IN
	OF SHARES	AMOUNT	CAPITAL
	-----	-----	-----
Net loss	--	--	\$ --
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	--	--	--
	-----	-----	-----

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Balance at May 31, 1994	--	--	56,779,765	(
Net loss	--	--	--	
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	--	--	--	
<hr/>				
Balance at May 31, 1995	--	--	59,378,829	
Net loss	--	--	--	
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 \$423,238)	--	--	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	--	--	--	
<hr/>				
Balance at May 31, 1996	--	--	115,427,120	(
Net loss	--	--	--	
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	--	--	--	
<hr/>				
Balance at May 31, 1997	--	--	116,011,985	(
Net loss	--	--	--	
Exercise of stock options at \$7.14 per share	--	--	35,650	
Amortization of deferred compensation	--	--	--	
<hr/>				
Balance at May 31, 1998	--	--	116,047,635	(
Net loss	--	--	--	
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	
<hr/>				
Balance at May 31, 1999	--	--	117,185,514	(6
Net loss	--	--	--	(
Non-cash compensation	--	--	57,112	
Exercise of stock options at \$13.38 per share	--	--	33,425	
<hr/>				
Balance at May 31, 2000	--	--	117,276,051	(7
Net loss	--	--	--	(1
Non-cash compensation	--	--	--	
Exercise of stock options at \$6.38 per share	--	--	38,220	
Exercise of stock options at \$10.81 per share	--	--	189,000	
<hr/>				
Balance at May 31, 2001	--	\$	117,503,271	(8
<hr/>				
Net loss (unaudited)	--	--	--	(
<hr/>				
Balance at August 31, 2001 (unaudited)	--	\$	117,503,271	(9

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

Statements of Cash Flows

Three months ended August 31, 2001 and 2000
and the cumulative period from June 19, 1985
(inception) through August 31, 2001

	Three months ended August 31,	
	2001	2000
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net loss	\$ (3,190,572)	(2,517,920)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	215,953	125,253
Non-cash compensation	--	--
Loss on sale of equipment	--	--
Changes in assets and liabilities:		
Prepaid expenses	108,325	73,085
Other current assets	309,964	(157,802)
Other assets	--	(49,200)
Accounts payable	(696,661)	(93,690)
Accrued expenses	308,153	35,712
Accrued compensation and benefits	380,020	1,470
Other liabilities	3,754	6,504
	(2,561,064)	(2,576,588)
Net cash used in operating activities		
Cash flows from investing activities:		
Purchase of property, plant, equipment, and capitalized engineering costs	(62,722)	(183,946)
Proceeds from sale of land and equipment	--	--
Proceeds from matured marketable securities	5,679,200	5,049,200
Proceeds from sale of marketable securities	--	--
Purchase of marketable securities	(4,999,648)	(5,684,996)
	616,830	(819,742)
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Proceeds from issuance of common stock	--	--
Payment of common stock issuance costs	--	--

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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	--	--
	-----	-----
Net (decrease) increase in cash	(1,944,234)	(3,396,330)
Cash at beginning of period	6,435,540	15,154,295
	-----	-----
Cash at end of period	\$ 4,491,306	11,757,965
	=====	=====

See accompanying notes to financial statements.

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

Notes to Financial Statements

August 31, 2001

(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 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

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all of our efforts and resources to the research, development and clinical testing of our potential product, PolyHeme™. 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 August 31, 2001, we have incurred operating losses totaling \$90,689,000.

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.

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 of the three-month periods ended August 31, 2001 or 2000. From Northfield's inception through August 31, 2001, we have reported total revenues of \$3,000,000, all of which were derived from licensing fees.

OPERATING EXPENSES

Operating expenses for our first fiscal quarter ended August 31, 2001 totaled \$3,492,000, an increase of \$384,000 from the \$3,108,000 reported in the first quarter of the fiscal 2001. Measured on a percentage basis, operating expenses in the first quarter of fiscal 2002 increased by 12.4%.

Bonus payments in recognition of the Company filing a Biologics License Application ("BLA") with the FDA for PolyHeme increased payroll expense by \$560,000 in the first quarter of fiscal 2002 as compared to the first quarter of fiscal 2001.

We incurred expenses in resolving a shareholder lawsuit relating to our 2001 annual shareholder meeting totaling \$136,000 during the first quarter of fiscal 2002. This expense was \$212,000 less than the expense incurred in connection with a proxy contest threatened by the same shareholder in connection with our 2000 annual shareholder meeting in the first quarter of fiscal 2001.

Research and development expenses for the first quarter of fiscal 2002 totaled \$2,649,000, an increase of \$411,000, or 18.4%, from the \$2,238,000 reported in the first quarter of fiscal 2001. First quarter fiscal 2002 payroll expense included \$289,000 of incremental bonus expenses relating to research and development employees compared to the first quarter of fiscal 2001. Higher costs were also recognized during the first quarter of fiscal 2002 for expenses

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related to data analysis and the close down of several clinical sites. These costs were partially offset by a reduction in the expense of clinical monitoring.

We anticipate that research and development expenses will increase significantly in the foreseeable future. Additional costs are being planned for multi-center clinical trials in support of expanded product indications, third party clinical monitoring, biostatistical analysis, report preparation and continued expansion of our manufacturing organization.

General and administrative expenses in the first quarter of fiscal 2002 totaled \$843,000 compared to expenses of \$870,000 in the first quarter of 2001, representing a decrease of \$27,000, or 3.1%. During the first quarter of fiscal 2002, Northfield filed a BLA for PolyHeme. Bonus payments in recognition of this event totaling \$271,000 were recorded as a general and administrative expense during the period. No general and administrative bonuses were paid during the first quarter of fiscal 2001. Partially offsetting these bonuses was a reduction in professional service fees compared to the prior year. Professional service expenses totaling \$136,000 related to our 2001 annual shareholder meeting were recorded in the first quarter of fiscal 2002 and professional service expenses totaling \$348,000 related to our 2000 annual shareholder meeting were recorded in the first quarter of fiscal 2001.

Northfield is planning to expand its organization in the areas of marketing, selling and information technology to support the commercial development of PolyHeme. The staff and capability expansions will likely increase general and administrative expenses for the balance of the fiscal year.

INTEREST INCOME

Interest income in the first quarter of fiscal 2002 totaled \$301,000, or a \$289,000 decrease from the \$590,000 in interest income reported in the first 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 3 to 4%. In the absence of a major cash infusion, interest income will continue to be significantly below prior year levels.

NET LOSS

The net loss for the first quarter ended August 31, 2001 was \$3,191,000, or \$.22 per basic share, compared to a net loss of \$2,518,000, or \$.18 per basic share, for the first quarter ended August 31, 2000. The increase in the loss per basic share is primarily the result of increased payroll costs and lower interest income.

LIQUIDITY AND CAPITAL RESOURCES

From Northfield's inception through August 31, 2001, we have used cash for operating activities and for the purchase of property, plant, equipment and engineering services in the amount of \$89,913,000. For the three-month periods ended August 31, 2001 and 2000, these cash expenditures totaled \$2,624,000 and \$2,761,000, respectively. The decreased cash outlay for the first quarter of fiscal 2002 compared to the comparable prior year period in spite of increased losses is the result of the timing of payments as evidenced by higher accrued expense balances. These increased liabilities represent only a temporary deferral of cash expenditures.

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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 August 31, 2001, we had cash and marketable securities totaling \$26,075,000.

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 the next 24 to 30 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 substantial additional capital. Currently, we have manufacturing capacity of approximately 10,000 units. Initial engineering on 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 \$26 to \$30 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.

Northfield, having filed for product approval with the FDA, will focus on raising additional capital. 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 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. Business or market conditions may not be favorable, which would cause a delay in the commercialization of our product.

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.

PART II. OTHER INFORMATION

Item 6. Exhibits

- a) Exhibit 15 - Acknowledgement of Independent Certified Public Accountants
- b) None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities

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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 October 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)