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NORTHFIELD LABORATORIES INC /DE/  
Form 10-Q  
January 13, 2004

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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 NOVEMBER 30, 2003

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 36-3378733  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification Number)

1560 SHERMAN AVENUE, SUITE 1000, EVANSTON, ILLINOIS 60201-4800  
(Address of principal executive offices) (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  NO

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS AN ACCELERATED FILER  
(AS DEFINED IN RULE 12b-2 OF THE EXCHANGE ACT).

YES  NO

AS OF NOVEMBER 30, 2003, REGISTRANT HAD 16,171,067 SHARES OF COMMON STOCK  
OUTSTANDING

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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This Quarterly Report contains forward-looking statements concerning, among other things, our prospects, clinical and regulatory developments affecting our potential product and our business strategies. These forward-looking statements are identified by the use of such terms as "intends," "expects," "plans," "estimates," "anticipates," "should," "believes" and similar terms.

These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those predicted by the forward-looking statements because of various factors and possible events, including those discussed under "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission. Because these forward-looking statements involve risks and uncertainties, actual results may differ significantly from those predicted in these forward-looking statements. You should not place undue weight on these statements. These statements speak only as of the date of this document or, in the case of any document incorporated by reference, the date of that document.

All subsequent written and oral forward-looking statements attributable to Northfield or any person acting on our behalf are qualified by the cautionary statements in this section and in our Annual Report. We will have no obligation to revise these forward-looking statements.

### 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, 2003, and the related statements of operations and cash flows for the three-month and six-month periods ended November 30, 2003 and 2002, and for the period from June 19, 1985 (inception) through November 30, 2003. We have also reviewed the statements of shareholders' equity (deficit) for the six-month period ended November 30, 2003 and for the period from June 19, 1985 (inception) through November 30, 2003. 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, 2003, 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, 2003 (not presented herein); and in our report dated July 28, 2003, 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, 2003 and in the accompanying statement of shareholders' equity (deficit) is fairly stated, in all material respects, in relation to the statements from which it has been derived.

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As discussed in note 4 to the financial statements, the Company adopted Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations, as of June 1, 2003.

/s/ KPMG LLP

Chicago, Illinois  
December 29, 2003

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

Balance Sheets

November 30, 2003 and May 31, 2003

	NOVEMBER 30, 2003	MAY 31, 2003
	-----	-----
ASSETS		
Current assets:		
Cash	\$ 9,810,103	4,897,
Marketable securities	--	1,992,
Prepaid expenses	472,924	688,
	-----	-----
Total current assets	10,283,027	7,579,
Property, plant, and equipment, net	1,285,961	1,596,
Other assets	87,271	71,
	-----	-----
	\$ 11,656,259	9,246,
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 466,876	1,462,
Accrued expenses	62,775	61,
Accrued compensation and benefits	409,951	377,
	-----	-----
Total current liabilities	939,602	1,901,
Other liabilities	258,698	165,
	-----	-----
Total liabilities	1,198,300	2,066,
	-----	-----
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 16,171,067 at November 30, 2003 and 14,265,875 at May 31, 2003	161,710	142,
Additional paid-in capital	127,249,991	117,503,
Deficit accumulated during the development stage	(116,953,742)	(110,465,
	-----	-----

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Total shareholders' equity	10,457,959	7,180,
	-----	-----
	\$ 11,656,259	9,246,
	=====	=====

See accompanying notes to financial statements.

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

Statements of Operations

Three and six months ended November 30, 2003 and 2002 and for the period from  
June 19, 1985 (inception) through November 30, 2003

	THREE MONTHS ENDED NOVEMBER 30,		SIX MONTHS ENDED NOVEMBER 30,	
	2003	2002	2003	2002
	-----	-----	-----	-----
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
	-----	-----	-----	-----
Revenues - license income	\$ --	--	--	--
Costs and expenses:				
Research and development	2,558,012	2,243,311	4,757,364	4,269,000
General and administrative	1,021,644	960,746	1,704,172	1,889,000
	-----	-----	-----	-----
	3,579,656	3,204,057	6,461,536	6,159,000
Other income and expense:				
Interest income	25,046	60,196	48,472	137,000
Interest expense	--	--	--	--
	-----	-----	-----	-----
	25,046	60,196	48,472	137,000
Cumulative effect of change in accounting principle	--	--	74,921	--
Net loss	\$ (3,554,610)	(3,143,861)	(6,487,985)	(6,021,000)
Net loss per share - basic and diluted	\$ (0.22)	(0.22)	(0.42)	(0.42)
Shares used in calculation of per share data - basic and diluted	16,162,934	14,265,875	15,560,900	14,265,875

See accompanying notes to financial statements.

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

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## Statements of Shareholders' Equity (Deficit)

Six months ended November 30, 2003 and for the period from June 19, 1985  
(inception) through November 30, 2003

	NUMBER OF SHARES	AGGREGATE AMOUNT
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	--	--
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	--	--

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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 notes to financial statements.

SERIES A CONVERTIBLE PREFERRED STOCK		SERIES B CONVERTIBLE PREFERRED STOCK		ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	DEFERRED COMPENSATION
NUMBER OF SHARES	AGGREGATE AMOUNT	NUMBER OF SHARES	AGGREGATE AMOUNT			
--	\$ --	--	\$ --	\$ (28,000)	\$ --	\$ --
250,000	250,000	--	--	670,850	--	--
--	--	--	--	--	(607,688)	--
250,000	250,000	--	--	642,850	(607,688)	--
--	--	--	--	--	(2,429,953)	--
--	--	--	--	2,340,000	--	(2,340,000)
--	--	--	--	--	--	720,000
250,000	250,000	--	--	2,982,850	(3,037,641)	(1,620,000)
--	--	200,633	200,633	6,882,502	--	--
--	--	--	--	--	(3,057,254)	--
--	--	--	--	--	--	566,136
250,000	250,000	200,633	200,633	9,865,352	(6,094,895)	(1,053,864)
--	--	--	--	9,749,870	--	--
(250,000)	(250,000)	--	--	237,500	--	--
--	--	(200,633)	(200,633)	190,601	--	--
--	--	--	--	93,759	--	--
--	--	--	--	4,976,855	--	--
--	--	--	--	2,488,356	--	--
--	--	--	--	7,443,118	--	--
--	--	--	--	--	(791,206)	--
--	--	--	--	683,040	--	(683,040)
--	--	--	--	--	--	800,729
--	--	--	--	35,728,451	(6,886,101)	(936,175)
--	--	--	--	--	(3,490,394)	--
--	--	--	--	699,163	--	(699,163)
--	--	--	--	--	--	546,278
--	--	--	--	36,427,614	(10,376,495)	(1,089,060)
--	--	--	--	--	(5,579,872)	--
--	--	--	--	--	--	435,296
--	--	--	--	36,427,614	(15,956,367)	(653,764)

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--	--	--	--	503,100	--	--
--	--	--	--	--	(7,006,495)	--
--	--	--	--	--	--	254,025
-----	-----	-----	-----	-----	-----	-----
--	--	--	--	36,930,714	(22,962,862)	(399,739)
--	--	--	--	106,890	--	--
--	--	--	--	5,663,710	--	--
--	--	--	--	--	(8,066,609)	--
--	--	--	--	--	--	254,025
-----	-----	-----	-----	-----	-----	-----
--	\$	--	\$	\$ 42,701,314	\$ (31,029,471)	\$ (145,714)
-----	-----	-----	-----	-----	-----	-----

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

Statements of Shareholders' Equity (Deficit)

Six months ended November 30, 2003 and for the period from June 19, 1985 (inception) through November 30, 2003

	PREFERRED STOCK		
	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,
Cancellation of stock options	--	--	--
Amortization of deferred compensation	--	--	--
-----	-----	-----	-----
Balance at May 31, 1994	--	--	9,
Net loss	--	--	--
Issuance of common stock at \$6.50 per share on June 20, 1994 (net of issuance costs of \$172,500)	--	--	--
Exercise of stock options at \$7.14 per share	--	--	--
Exercise of stock options at \$2.00 per share	--	--	--
Cancellation of stock options	--	--	--
Amortization of deferred compensation	--	--	--
-----	-----	-----	-----
Balance at May 31, 1995	--	--	10,
Net loss	--	--	--
Issuance of common stock at \$17.75 per share on August 9, 1995 (net of issuance costs of \$3,565,125)	--	--	2,
Issuance of common stock at \$17.75 per share on September 11, 1995 (net of issuance costs of \$423,238)	--	--	--
Exercise of stock options at \$2.00 per share	--	--	--
Exercise of stock options at \$6.38 per share	--	--	--
Exercise of stock options at \$7.14 per share	--	--	--
Cancellation of stock options	--	--	--
Amortization of deferred compensation	--	--	--
-----	-----	-----	-----
Balance at May 31, 1996	--	--	13,

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Net loss			--	--	
Exercise of stock options at \$0.20 per share			--	--	
Exercise of stock options at \$2.00 per share			--	--	
Exercise of stock options at \$7.14 per share			--	--	
Amortization of deferred compensation			--	--	
			----	-----	----
Balance at May 31, 1997			--	--	14,
Net loss			--	--	
Exercise of stock options at \$7.14 per share			--	--	
Amortization of deferred compensation			--	--	
			----	-----	----
Balance at May 31, 1998			--	--	14,
Net loss			--	--	
Non-cash compensation			--	--	
Exercise of stock options at \$7.14 per share			--	--	
Exercise of stock warrants at \$8.00 per share			--	--	
			----	-----	----
Balance at May 31, 1999			--	--	14,
Net loss			--	--	
Non-cash compensation			--	--	
Exercise of stock options at \$13.38 per share			--	--	
			----	-----	----
Balance at May 31, 2000			--	--	14,
Net loss			--	--	
Non-cash compensation			--	--	
Exercise of stock options at \$6.38 per share			--	--	
Exercise of stock options at \$10.81 per share			--	--	
			----	-----	----
Balance at May 31, 2001			--	--	14,
Net loss			--	--	
			----	-----	----
Balance at May 31, 2002			--	--	14,
Net loss			--	--	
			----	-----	----
Balance at May 31, 2003			--	--	14,
Issuance of common stock at \$5.60 per share on July 28, 2003 (net of costs of issuance of \$909,229)			--	--	1,
Issuance of common stock to directors at \$6.08 per share on October 30, 2003					
Net loss			--	--	
			----	-----	----
Balance at November 30, 2003			--	\$ --	16,
			====	=====	====

SERIES A CONVERTIBLE PREFERRED STOCK		SERIES B CONVERTIBLE PREFERRED STOCK		ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	DEFERRED COMPEN- SATION	T S HO E (DE
NUMBER OF SHARES	AGGREGATE AMOUNT	NUMBER OF SHARES	AGGREGATE AMOUNT				



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---	\$	---	---	\$	---	\$	(7,363,810)	\$	---	\$	(7,363,810)
---		---	---		---		14,163,851		---		14,163,851
---		---	---		---		(85,400)		85,400		
---		---	---		---		---		267		
---		---	---		---		56,779,765		(38,393,281)		(60,047)
---		---	---		---		---		(7,439,013)		(7,439,013)
---		---	---		---		2,261,250		---		2,261,250
---		---	---		---		71,300		---		71,300
---		---	---		---		373,264		---		373,264
---		---	---		---		(106,750)		---		(106,750)
---		---	---		---		---		106,750		106,750
---		---	---		---		---		(67,892)		(67,892)
---		---	---		---		59,378,829		(45,832,294)		(21,189)
---		---	---		---		---		(4,778,875)		(4,778,875)
---		---	---		---		48,324,374		---		48,324,374
---		---	---		---		7,360,187		---		7,360,187
---		---	---		---		362,937		---		362,937
---		---	---		---		9,555		---		9,555
---		---	---		---		71,300		---		71,300
---		---	---		---		(80,062)		---		(80,062)
---		---	---		---		---		80,062		80,062
---		---	---		---		---		(62,726)		(62,726)
---		---	---		---		115,427,120		(50,611,169)		(3,853)
---		---	---		---		---		(4,245,693)		(4,245,693)
---		---	---		---		50,025		---		50,025
---		---	---		---		463,540		---		463,540
---		---	---		---		71,300		---		71,300
---		---	---		---		---		---		---
---		---	---		---		---		2,569		2,569
---		---	---		---		116,011,985		(54,856,862)		(1,284)
---		---	---		---		---		(5,883,378)		(5,883,378)
---		---	---		---		35,650		---		35,650
---		---	---		---		---		---		---
---		---	---		---		---		1,284		1,284
---		---	---		---		116,047,635		(60,740,240)		---
---		---	---		---		---		(7,416,333)		(7,416,333)
---		---	---		---		14,354		---		14,354
---		---	---		---		124,775		---		124,775
---		---	---		---		998,750		---		998,750
---		---	---		---		117,185,514		(68,156,573)		---
---		---	---		---		---		(9,167,070)		(9,167,070)
---		---	---		---		57,112		---		57,112
---		---	---		---		33,425		---		33,425
---		---	---		---		117,276,051		(77,323,643)		---
---		---	---		---		---		(10,174,609)		(10,174,609)
---		---	---		---		---		---		---
---		---	---		---		38,220		---		38,220
---		---	---		---		189,000		---		189,000

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--	--	--	--	117,503,271	(87,498,252)	--	30
--	--	--	--	--	(10,717,360)	--	(10)
-----	-----	-----	-----	-----	-----	-----	-----
--	--	--	--	117,503,271	(98,215,612)	--	19
--	--	--	--	--	(12,250,145)	--	(12)
-----	-----	-----	-----	-----	-----	-----	-----
--	--	--	--	117,503,271	(110,465,757)	--	7
--	--	--	--	9,671,843	--	--	9
--	--	--	--	74,877	--	--	9
--	--	--	--	--	(6,487,985)	--	(6)
-----	-----	-----	-----	-----	-----	-----	-----
--	\$ --	--	\$ --	\$ 127,249,991	\$ (116,953,742)	\$ --	\$ 10
=====	=====	=====	=====	=====	=====	=====	=====

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

Statements of Cash Flows

Six months ended November 30, 2003 and 2002  
and for the period from June 19, 1985  
(inception) through November 30, 2003

	SIX MONTHS ENDED NOVEMBER	
	2003	2002
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (6,487,985)	(6,021,406)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	345,699	406,000
Non-cash compensation	75,000	
Loss on sale of equipment	--	
Changes in assets and liabilities:		
Prepaid expenses	215,831	100,000
Other current assets	--	(9,000)
Other assets	(15,872)	
Accounts payable	(995,710)	(753,000)
Accrued expenses	1,256	109,000
Accrued compensation and benefits	32,834	(22,000)
Other liabilities	93,654	(4,000)
	-----	-----
Net cash used in operating activities	(6,735,293)	(6,194,406)
	-----	-----
Cash flows from investing activities:		
Purchase of property, plant, equipment, and capitalized engineering costs	(43,337)	(146,000)
Proceeds from sale of land and equipment	--	

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Proceeds from matured marketable securities	2,000,000	
Proceeds from sale of marketable securities	--	
Purchase of marketable securities	--	(1,953)
	-----	-----
Net cash provided by (used in) investing activities	1,956,663	(2,099)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock	10,600,000	
Payment of common stock issuance costs	(909,229)	
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	9,690,771	
	-----	-----
Net (decrease) increase in cash	4,912,141	(8,294)
Cash at beginning of period	4,897,962	17,668
	-----	-----
Cash at end of period	\$ 9,810,103	9,374
	=====	=====

See accompanying notes to financial statements.

NORTHFIELD LABORATORIES INC.

(A COMPANY IN THE DEVELOPMENT STAGE)

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2003

(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 periods presented are not necessarily indicative of the results to be expected for the year ending May 31, 2004. The interim financial statements should be read in connection with the audited financial statements for the year ended May 31, 2003.

(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

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presented, basic and diluted per share amounts are the same.

### (3) GOING CONCERN UNCERTAINTY

The financial statements of the Company have been presented based on the assumption that the Company will continue as a going concern. The Company, however, may not be able to continue as going concern because it expects to experience significant future losses and currently has insufficient capital resources to fund its continuing operations. The Company believes its existing capital resources will be adequate to satisfy its operating capital requirements and maintain its existing manufacturing plant and office facilities for 6 months. In addition, the Company expects its existing capital resources will be sufficient to support expenditures incurred in connection with the Company's planned Phase III clinical trials during this period. Thereafter, the Company will require substantial additional funding to continue its operations and complete its planned clinical trials.

The Company raised \$10,600,000 in gross proceeds through an offering of its common stock in July 2003. The Company may issue additional equity or debt securities or enter into collaborative arrangements with strategic partners, which could provide the Company with additional funding or absorb expenses the Company would otherwise be required to pay. The Company is also pursuing potential sources of government funding. Any one or a combination of these sources may be utilized to raise additional capital. We believe our ability to raise additional capital will depend primarily on the progress we make toward the commercialization of our potential product, as well as general conditions in the business and financial markets. There can be no assurance that the Company will be successful in raising additional capital. The Company's inability to raise sufficient levels of capital could materially delay or prevent the commercialization of its PolyHeme(R) blood substitute product and could result in the cessation of the Company's business. The financial

statements do not include any adjustments that might result from the outcome of this uncertainty.

### (4) ASSET RETIREMENT OBLIGATIONS

The Company adopted Statement of Financial Accounting Standards, SFAS No. 143 - Accounting for Asset Retirement Obligations as of June 1, 2003. The cumulative effect of the change in accounting principle upon implementation was to recognize a net asset of \$17,800, an increase in liabilities of \$92,721 and an increase in net loss of \$74,921, or \$0.01 per share.

The obligation relates to the restoration of a leased manufacturing facility to its original condition. A liability of \$100,000 had been recorded in a prior period.

The Company's asset retirement obligations are included in other liabilities. The balances and changes thereto are summarized below:

	Quarter Ended November 30, 2003
Obligation at June 1, 2003	\$192,721
Accretion	8,672
	-----
Obligation at November 30, 2003	\$201,393
	-----

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If the change in accounting had been applied retroactively, the Company's pro forma net loss for the six months ended November 30, 2002 and for the period from June 19, 1985 (inception) through November 30, 2002 would have been \$6,086,990 and \$104,302,602. The Company's pro forma liability at November 30, 2003 would have been \$184,764.

### (5) STOCK OPTIONS

The Company accounts for its fixed plan stock options under the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for options granted to directors, officers, and key employees under the plans. As such, compensation expense is recorded on the date of grant and amortized over the period of service only if the current market value of the underlying stock exceeded the exercise price. No stock-based employee compensation cost is reflected in net loss, as each option granted under these plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) 123, Accounting for Stock Based Compensation, to the measurement of stock-based employee compensation, including a straight-line recognition of compensation costs over the related vesting periods for fixed awards:

	THREE MONTHS ENDED		
	NOV 30 2003 ----- (unaudited)	NOV 30 2002 ----- (unaudited)	NOV 30 2001 ----- (unaudited)
Net loss as reported	\$ (3,554,610)	(3,143,861)	(6,287,721)
Deduct: Total stock based compensation expense determined under the fair value method for all awards, net of related tax effects	(200,962) -----	(169,808) -----	(1,000,000) -----
Pro forma net loss	(3,755,572) =====	(3,313,669) =====	(7,287,721) =====
Basic and diluted loss per share:			
As reported	(0.22)	(0.22)	(0.22)
Pro forma	(0.23) =====	(0.23) =====	(0.23) =====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

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### OF OPERATIONS.

As of November 30, 2003, Northfield Laboratories Inc. ("Northfield") had available cash balances of \$9,810,000. We forecast that this level of cash will be sufficient to fund current operations from November 30, 2003 and the ramp-up of our phase III pre-hospital trauma trials for approximately 6 months. We forecast a need to raise approximately \$25 to 30 million in total to fund operations through the completion of our phase III pre-hospital trauma trials.

During the first quarter of the current fiscal year, we raised \$10,600,000 in gross proceeds through the sale of common shares from a shelf registration statement which allows us to issue up to \$50,000,000 in securities. We may issue additional equity or debt securities, or utilize other financing vehicles, to provide additional capital. We believe our ability to raise additional capital will depend primarily on the progress we make toward the commercialization of PolyHeme(R), as well as general conditions in the business and financial markets. Our inability to raise sufficient levels of capital would severely impair our current operations and raises significant doubt about our ability to continue as a going concern.

Since Northfield's incorporation in 1985, we have devoted substantially all of our efforts and resources to the research, development and clinical testing of PolyHeme(R). 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, 2003, we have incurred operating losses totaling \$116,954,000.

We will be required to complete our planned phase III pre-hospital trauma trials to obtain FDA regulatory approval before PolyHeme(R) can be sold commercially. The FDA regulatory process is subject to significant risks and uncertainties, including those described under "Risk Factors" found in our Annual Form 10-K filing. We therefore cannot at this time reasonably estimate the timing of any future revenues from the commercial sale of PolyHeme(R).

Our success will depend on several factors, including our ability to obtain FDA regulatory approval of PolyHeme(R) and our manufacturing facilities, our ability to obtain sufficient quantities of blood to manufacture PolyHeme(R) in commercial quantities, our ability to manufacture and distribute PolyHeme(R) in a cost-effective manner, our ability to enforce our patent positions and the availability of sufficient capital to fund these activities. We have experienced significant delays in the development and clinical testing of PolyHeme(R). 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.

### RESULTS OF OPERATIONS

We reported no revenues for any of the three and six-month periods ended November 30, 2003 or 2002. From Northfield's inception through November 30, 2003, 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, 2003 totaled \$3,580,000, an increase of \$376,000, or 11.7%, from the \$3,204,000 reported in the second quarter of fiscal 2003. The difference was primarily due to increased costs associated with launching our phase III pre-hospital trauma

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trial.

Research and development expenses for the second quarter of fiscal 2004 totaled \$2,558,000, an increase of \$315,000, or 14.0%, from the \$2,243,000 reported in the second quarter of fiscal 2003. Higher expenses were recognized during the second quarter of fiscal 2004 related to start-up costs for our phase III pre-hospital trauma trial. These costs included site qualification visits, costs incurred for community consultation and public disclosure as required for a waiver of consent protocol, site training for logistics and data recording, and training for analyzing patient blood samples.

We anticipate that research and development expenses will increase significantly during the remainder of our fiscal year. From current levels, additional costs are being planned for community disclosure, multi-center site participation, clinical monitoring, database preparation, biostatistical analysis, independent safety appraisal and project management.

General and administrative expenses in the second quarter of fiscal 2004 totaled \$1,022,000 compared to expenses of \$961,000 in the second quarter of 2003, representing an increase of \$61,000, or 6.3%. This increase was due to higher compensation costs from year

over year hiring, insurance costs and filing fees related to our common stock offering, which occurred in the first quarter of this fiscal year.

We anticipate modest increases in general and administrative expenses, specifically in market research, over the balance of the fiscal year. Our focus is centered on successfully executing our phase III pre-hospital trauma trial. An effort, however, will be initiated to enhance our assessment of the market and begin to develop plans for the commercial launch of PolyHeme(R).

For the six-month period ended November 30, 2003, operating expenses of \$6,462,000 exceeded the operating expenses of \$6,159,000 incurred in the six-month period ended November 30, 2002. The dollar increase was \$303,000 and the percentage increase equaled 4.9%. The increases can primarily be attributed to the required preparation work for our phase III pre-hospital trauma trial.

Research and development expenses for the six-month period ended November 30, 2003 totaled \$4,757,000, which represents a \$488,000, or 11.4%, increase from the comparable expenses incurred in the six-month period ended November 30, 2002. During the current fiscal year, the most important activities were obtaining the required regulatory approvals for our phase III pre-hospital trauma trial, preparing site required documentation for both community consultation and institutional review board approval, and formalizing, communicating and conducting site training for logistical and data issues. These efforts are the sources of the increased expenses.

General and administrative expenses for the six-month period ended November 30, 2003 totaled \$1,704,000, which represents a \$186,000, and 9.8%, decrease from the expense incurred in the comparable prior year period. The decrease is the result of a significant reduction in the use of outside professional services.

### INTEREST INCOME

Interest income in the second quarter of fiscal 2004 totaled \$25,000, or a \$35,000 decrease from the \$60,000 in interest income reported in the second quarter of fiscal 2003. Lower investment balances combined with a reduction in

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available short-term interest rates accounted for the decrease in interest income. In the absence of a significant cash infusion, interest income will continue to be significantly below prior year levels.

On a fiscal year to date basis, interest income of \$48,000 was \$90,000 lower than in the comparable prior year period. Lower available investment balances and lower yielding investment options combined to cause the significant decrease in interest income.

### NET LOSS

The net loss for the second quarter ended November 30, 2003 was \$3,555,000, or \$0.22 per share, compared to a net loss of \$3,144,000, or \$0.22 per share, for the second quarter ended November 30, 2002. The \$411,000 increased net loss in the current quarter compared to the second quarter of the prior year was primarily the result of increased research and development spending. On a per share basis, the increased net loss was mitigated by the additional shares outstanding in the current quarter and resulted in the loss per share equaling \$0.22 for both the second quarter of fiscal 2004 and 2003.

On a fiscal year to date basis, we reported a loss of \$6,488,000 and \$0.42 per share compared to a prior year 6-month loss of \$6,021,000 or \$0.42 per share. The increased net loss of \$467,000 in the first six-months of the current fiscal year compared to the same period in the prior year is mitigated by the increased number of shares outstanding in the current fiscal year.

### LIQUIDITY AND CAPITAL RESOURCES

From Northfield's inception through November 30, 2003, we have used cash for operating activities and for the purchase of property, plant, equipment and engineering services in the amount of \$115,915,000. For the six-month periods ended November 30, 2003 and 2002, these cash expenditures totaled \$6,779,000 and \$ 6,341,000, respectively. The increased cash outlay for the first six-month period of fiscal 2004 compared to the same period in the prior year is the result of a higher level of research and development expenses related to our phase III pre-hospital trauma trial in the current year.

We have financed our research and development and other activities to date through the public and private sale of equity securities and, to a more limited extent, through the license of product rights. In July 2003, we sold 1,892,857 shares of our common stock in an offering transaction that generated gross proceeds before expenses of \$10,600,000. Net proceeds from this offering were approximately \$9.7 million. As of November 30, 2003, we had cash and marketable securities totaling \$9,810,000.

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 6 months. In addition, our existing capital resources are expected to be sufficient to support expenditures incurred in connection with our planned phase III pre-hospital trauma trials during this period. Thereafter, we will require substantial additional funding to continue our operations and complete our planned trauma trials. Our inability to raise sufficient levels of capital would severely impair our current operations and raises significant doubt about our ability to continue as a going concern.

We may issue additional equity or debt securities 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. We



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are also pursuing potential sources of government funding. Any one or a combination of these sources may be utilized to raise additional capital. We believe our ability to raise additional capital will depend primarily on the progress we make toward the commercialization of PolyHeme(R), as well as general conditions in the business and financial markets. Our inability to raise sufficient levels of capital could materially delay or prevent the commercialization of PolyHeme(R), even if it is approved by FDA. We cannot ensure that we will be able to achieve product revenues or profitability on a sustained basis or at all.

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

### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. We believe the following critical accounting policy reflects our more significant judgments and estimates used in the preparation of our financial statements.

### NET DEFERRED TAX ASSETS VALUATION

We record our net deferred tax assets in the amount that we expect to realize based on projected future taxable income. In assessing the appropriateness of our valuation, assumptions and estimates are required, such as Northfield's ability to generate future taxable income. In the event we were to determine that it was more likely than not we would be able to realize our deferred tax assets in the future in excess of their carrying value, an adjustment to recognize the deferred tax assets would increase income in the period such determination was made. As of

November 30, 2003, we have recorded a 100% percent valuation allowance against our net deferred tax assets.

### CONTRACTUAL OBLIGATIONS

The following table reflects a summary of our contractual cash obligations as of November 30, 2003:

CONTRACTUAL CASH OBLIGATIONS -----	TOTAL -----	LESS THAN ONE YEAR -----	1-3 YE -----
Lease Obligations (1) .....	\$3,375,050	860,929	1,462,
Other Obligations (2) .....	1,527,589 -----	888,544 -----	639, -----
Total Contractual Cash Obligations .....	\$4,902,639 =====	1,749,473 =====	2,101, =====

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(1) The lease for our Evanston headquarters is cancelable 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. The Mt. Prospect lease has been renewed through August 2009.

(2) Includes payments required under employment agreements for Steven A. Gould, M.D. and Jack J. Kogut and obligations under a consulting agreement. The employment agreements provide for a minimum of one-year severance and additional payments under certain circumstances.

### RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. FASB Statement No. 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The enterprise also is to record a corresponding increase to the carrying amount of the related long-lived asset (i.e., the associated asset retirement costs) and to depreciate that cost over the life of the asset. The liability is changed at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the initial fair value measurement. The Company adopted this standard as of June 1, 2003. Upon adoption, the cumulative effect of the change in accounting principle was to recognize a net asset of \$17,800, an increase in liabilities of \$92,721 and an increase in net loss of \$74,921, or \$.01 per share.

On May 15, 2003 the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150)." The provisions of the Statement change the classification of certain freestanding financial instruments that are now classified as equity. Generally, the Statement is effective for financial instrument arrangements entered into or modified after May 31, 2003. The adoption of SFAS 150 did not have a material effect on the financial position, results of operations, or cash flows of the Company.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The Company currently does not have any foreign currency exchange risk. The Company invests its cash and cash equivalents in government securities, certificates of deposit and money market funds. These investments are subject to interest rate risk. However, due to the nature of the Company's short-term investments, it believes that the financial market risk exposure is not material. A one percentage point decrease on an investment balance of \$9.8 million would decrease interest income by \$98,000 on an annual basis.

### ITEM 4. CONTROLS AND PROCEDURES.

Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer and Senior Vice President and Chief Financial Officer have concluded that Northfield's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

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There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### PART II. OTHER INFORMATION

#### Item 6. Exhibits

- a)
  - Exhibit 15 - Acknowledgement of Independent Certified Public Accountants
  - Exhibit 31.1 - Certification of Steven A. Gould, M.D., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
  - Exhibit 31.2 - Certification of Jack J. Kogut, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
  - Exhibit 32.1 - Certification of Steven A. Gould, M.D., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
  - Exhibit 32.2 - Certification of Jack J. Kogut, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- b) On July 23, 2003 the Registrant filed Form 8-K relating to a registered direct offering registered on Form S-3.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company in the capacities indicated on January 13, 2004.

SIGNATURE	TITLE
/s/ Steven A. Gould, M.D. ----- Steven A. Gould, M.D.	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ Jack J. Kogut ----- Jack J. Kogut	Sr. Vice President and Chief Financial Officer