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NORTHFIELD LABORATORIES INC /DE/
Form 10-Q
January 09, 2006

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UNITED STATES
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 QUARTERLY PERIOD ENDED NOVEMBER 30, 2005

OR

TRANSITION REPORT PURSUANT 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

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

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

YES X NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS
DEFINED IN RULE 12b-2 OF THE EXCHANGE ACT).

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YES NO X
----- -----

AS OF NOVEMBER 30, 2005, REGISTRANT HAD 26,760,782 SHARES OF COMMON STOCK OUTSTANDING

=====

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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," "forecasts," "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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2005, and the related statements of operations for the three-month periods ended November 30, 2005 and 2004, and the statements of operations and cash flows for the six-month periods ended November 30, 2005 and 2004, and for the period from June 19, 1985 (inception) through November 30, 2005. We have also reviewed the statements of shareholders' equity (deficit) for the six-month period ended November 30, 2005 and for the period from June 19, 1985 (inception) through November 30, 2005. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), 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

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conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the balance sheet of Northfield Laboratories Inc. as of May 31, 2005, 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, 2005 (not presented herein); and in our report dated August 12, 2005, 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, 2005 and in the accompanying statements of operations, cash flows and shareholders' equity (deficit) for the period from June 19, 1985 (inception) through May 31, 2005 is fairly stated, in all material respects, in relation to the statements from which it has been derived.

/s/ KPMG LLP

Chicago, Illinois
January 6, 2006

DRAFT

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

Balance Sheets

November 30, 2005 and May 31, 2005

| | NOVEMBER 30, 2005 ----- (unaudited) | MAY 31, 2005 ----- |
|--------------------------------------|--|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 43,630,215 | 6,800,405 |
| Marketable securities | 42,489,050 | 91,330,289 |
| Prepaid expenses | 535,859 | 826,741 |
| Other current assets | 105,220 | 139,808 |
| | ----- | ----- |
| Total current assets | 86,760,344 | 99,097,243 |
| Property, plant, and equipment | 15,032,276 | 14,796,631 |
| Accumulated depreciation | (14,084,491) | (13,961,694) |
| | ----- | ----- |
| Net property, plant, and equipment | 947,785 | 834,937 |
| | ----- | ----- |
| Other assets | 69,147 | 69,392 |
| | ----- | ----- |
| Total assets | \$ 87,777,276 | 100,001,572 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,426,051 | 3,325,570 |
| Accrued expenses | 107,515 | 110,679 |
| Accrued compensation and benefits | 1,097,719 | 539,783 |

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| | | |
|--|----------------------|--------------------|
| Total current liabilities | 3,631,285 | 3,976,032 |
| Other liabilities | 236,776 | 251,582 |
| Total liabilities | 3,868,061 | 4,227,614 |
| Shareholders' equity: | | |
| Preferred stock, \$.01 par value. Authorized 5,000,000 shares; none issued and outstanding | -- | -- |
| Common stock, \$.01 par value. Authorized 60,000,000 shares; issued 26,762,499 at November 30, 2005 and 26,752,739 at May 31, 2005 | 267,625 | 267,527 |
| Additional paid-in capital | 241,116,670 | 240,997,444 |
| Deficit accumulated during the development stage | (157,410,848) | (145,361,011) |
| Deferred compensation | (38,839) | (104,609) |
| | 83,934,608 | 95,799,351 |
| Less cost of common shares in treasury; 1,717 shares | (25,393) | (25,393) |
| Total shareholders' equity | 83,909,215 | 95,773,958 |
| | \$ 87,777,276 | 100,001,572 |
| | ===== | ===== |

See accompanying notes to financial statements and 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, 2005 and November 30, 2004 and for
the period from June 19, 1985 (inception) through November 30, 2005

| | THREE MONTHS ENDED NOVEMBER 30, | | SIX MONTHS ENDED NOVEMBER 30, | |
|----------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenues - license income | \$ -- | -- | -- | |
| Costs and expenses: | | | | |
| Research and development | 5,573,302 | 4,177,450 | 10,667,176 | 8,215, |
| General and administrative | 1,459,825 | 910,063 | 2,848,819 | 1,858, |
| | 7,033,127 | 5,087,513 | 13,515,995 | 10,074, |
| Other income and expense: | | | | |
| Interest income | 764,016 | 155,814 | 1,466,158 | 276, |
| Interest expense | -- | -- | -- | |
| | \$ 764,016 | 155,814 | 1,466,158 | 276, |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|--|---------------|-------------|--------------|---------|
| Net loss before cumulative effect of change in accounting principle | (6,269,111) | (4,931,699) | (12,049,837) | (9,798, |
| | ----- | ----- | ----- | ----- |
| Cumulative effect of change in accounting principle | -- | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Net loss | \$(6,269,111) | (4,931,699) | (12,049,837) | (9,798, |
| | ===== | ===== | ===== | ===== |
| Net loss per share - basic and diluted | \$ (0.23) | (0.23) | (0.45) | (0 |
| | ===== | ===== | ===== | ===== |
| Shares used in calculation of per share data - basic and diluted | 26,758,538 | 21,440,357 | 26,754,947 | 21,422, |
| | ===== | ===== | ===== | ===== |

See accompanying notes to financial statements and accountants' review report.

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

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Statements of Shareholders' Equity (Deficit)

Six months ended November 30, 2005 and for the period
from June 19, 1985 (inception) through November 30, 2005

| | PREFERRED STOCK | |
|--|---------------------|---------------------|
| | 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 | -- | -- |

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| | | |
|--|------|------|
| 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 | -- | -- |
| Net loss | -- | -- |
| Issuance of common stock at \$6.50 per share on May 26, 1994 (net of costs of issuance of \$2,061,149) | -- | -- |
| Cancellation of stock options | -- | -- |
| Amortization of deferred compensation | -- | -- |
| | ---- | ---- |
| Balance at May 31, 1994 | -- | -- |
| 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 | -- | \$-- |

See accompanying notes to financial statements and accountants' review report.

| SERIES A CONVERTIBLE PREFERRED STOCK | | SERIES B CONVERTIBLE PREFERRED STOCK | | ADDITIONAL PAID-IN CAPITAL | DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE | DEFERRED COMPENSATION | TREAS SHAR |
|---|---------------------|---|---------------------|----------------------------------|--|--------------------------|---------------|
| NUMBER OF SHARES | AGGREGATE AMOUNT | NUMBER OF SHARES | AGGREGATE AMOUNT | | | | |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |

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| | | | | | | | | | | | | |
|-----------|-----------|-----------|-----------|------------|--------------|-------------|-------------|----|----|----|----|----|
| -- | \$ | -- | -- | \$ | -- | \$ | (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) | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | 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) | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | (7,363,810) | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | 14,163,851 | -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | (85,400) | -- | -- | 85,400 | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | 267 | -- | -- | -- | -- | -- |

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| | | | | | | | |
|-------|-------|-------|-------|------------|--------------|-----------------|-------------|
| -- | -- | -- | -- | 56,779,765 | (38,393,281) | (60,047) | -- |
| -- | -- | -- | -- | -- | (7,439,013) | -- | -- |
| -- | -- | -- | -- | 2,261,250 | -- | -- | -- |
| -- | -- | -- | -- | 71,300 | -- | -- | -- |
| -- | -- | -- | -- | 373,264 | -- | -- | -- |
| -- | -- | -- | -- | (106,750) | -- | 106,750 | -- |
| -- | -- | -- | -- | -- | -- | (67,892) | -- |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| -- | \$ | -- | \$ | -- | \$59,378,829 | \$ (45,832,294) | \$ (21,189) |

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

Statements of Shareholders' Equity (Deficit)

Six months ended November 30, 2005 and for the period
from June 19, 1985 (inception) through November 30, 2005

| | PREFERRED STOCK | | COMM |
|---|---------------------|---------------------|---------------------|
| | NUMBER OF SHARES | AGGREGATE AMOUNT | NUMBER OF SHARES |
| | ----- | ----- | ----- |
| 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 | -- | -- | 13,586,150 |
| Net loss | -- | -- | -- |
| Exercise of stock options at \$0.20 per share | -- | -- | 263,280 |
| Exercise of stock options at \$2.00 per share | -- | -- | 232,930 |
| Exercise of stock options at \$7.14 per share | -- | -- | 10,000 |
| Amortization of deferred compensation | -- | -- | -- |
| Balance at May 31, 1997 | -- | -- | 14,092,370 |
| Net loss | -- | -- | -- |
| Exercise of stock options at \$7.14 per share | -- | -- | 5,000 |
| Amortization of deferred compensation | -- | -- | -- |
| Balance at May 31, 1998 | -- | -- | 14,097,370 |
| 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 |
| | ----- | ----- | ----- |

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| | | | |
|--|------|------|-----------|
| Balance at May 31, 1999 | -- | -- | 14,239,87 |
| Net loss | -- | -- | - |
| Non-cash compensation | -- | -- | - |
| Exercise of stock options at \$13.38 per share | -- | -- | 2,50 |
| | ---- | ---- | ----- |
| Balance at May 31, 2000 | -- | -- | 14,242,37 |
| Net loss | -- | -- | - |
| Non-cash compensation | -- | -- | - |
| Exercise of stock options at \$6.38 per share | -- | -- | 6,00 |
| Exercise of stock options at \$10.81 per share | -- | -- | 17,50 |
| | ---- | ---- | ----- |
| Balance at May 31, 2001 | -- | -- | 14,265,87 |
| Net loss | -- | -- | - |
| | ---- | ---- | ----- |
| Balance at May 31, 2002 | -- | -- | 14,265,87 |
| Net loss | -- | -- | - |
| | ---- | ---- | ----- |
| Balance at May 31, 2003 | -- | -- | 14,265,87 |
| Issuance of common stock at \$5.60 per share on July 28, 2003 (net of costs of issuance of \$909,229) | -- | -- | 1,892,85 |
| Issuance of common stock to directors at \$6.08 per share on October 30, 2003 | -- | -- | 12,33 |
| Deferred compensation related to stock grants | -- | -- | 25,50 |
| Amortization of deferred compensation | -- | -- | - |
| Issuance of common stock at \$5.80 per share on January 29, 2004 (net of costs of issuance of \$1,126,104) | -- | -- | 2,585,96 |
| Issuance of common stock at \$5.80 per share on February 18, 2004 (net of costs of issuance of \$116,423) | -- | -- | 237,00 |
| Issuance of common stock at \$5.80 per share on April 15, 2004 (net of costs of issuance of \$192,242) | -- | -- | 409,48 |
| Issuance of common stock at \$12.00 per share on May 18, 2004 (net of costs of issuance of \$1,716,831.36) | -- | -- | 1,954,41 |
| Exercise of stock options at \$6.38 per share | -- | -- | 15,00 |
| Net loss | -- | -- | - |
| | ---- | ---- | ----- |
| Balance at May 31, 2004 | | | 21,398,43 |
| Deferred compensation related to stock grants | -- | -- | 5,50 |
| Amortization of deferred compensation | -- | -- | - |
| Exercise of stock options between \$5.08 and \$14.17 per share | -- | -- | 167,87 |
| Cost of shares in treasury, 1,717 shares | -- | -- | - |
| Issuance of common stock to directors at \$12.66 per share on September 21, 2004 | -- | -- | 5,92 |
| Issuance of common stock at \$15.00 per share on February 9, 2005 (net of costs of issuance of \$4,995,689) | -- | -- | 5,175,00 |
| Net loss | -- | -- | - |
| | ---- | ---- | ----- |
| Balance at May 31, 2005 | | \$ | 26,752,73 |
| Amortization of deferred compensation (unaudited) | -- | -- | - |
| Exercise of stock options at \$7.13 and \$10.66 per share | -- | -- | 2,87 |
| Issuance of common stock to directors at \$13.05 per share on September 29, 2005 (unaudited) | -- | -- | 5,75 |
| Issuance of common stock to director at \$13.21 per share on October 3, 2005 (unaudited) | -- | -- | 1,13 |
| Net loss (unaudited) | -- | -- | - |
| | ---- | ---- | ----- |

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Balance at November 30, 2005 (unaudited)

==== \$ 26,762,49
====

See accompanying notes to financial statements and accountants' review report.

| SERIES A CONVERTIBLE PREFERRED STOCK | | SERIES B CONVERTIBLE PREFERRED STOCK | | ADDITIONAL PAID-IN CAPITAL | DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE | DEFERRED COMPEN- SATION | TREASU SHARE |
|---|---------------------|---|---------------------|----------------------------------|--|-------------------------------|-----------------|
| NUMBER OF SHARES | AGGREGATE AMOUNT | NUMBER OF SHARES | AGGREGATE AMOUNT | | | | |
| -- | \$-- | -- | \$-- | \$ -- | \$ (4,778,875) | \$ -- | -- |
| -- | -- | -- | -- | 48,324,374 | -- | -- | -- |
| -- | -- | -- | -- | 7,360,187 | -- | -- | -- |
| -- | -- | -- | -- | 362,937 | -- | -- | -- |
| -- | -- | -- | -- | 9,555 | -- | -- | -- |
| -- | -- | -- | -- | 71,300 | -- | -- | -- |
| -- | -- | -- | -- | (80,062) | -- | 80,062 | -- |
| -- | -- | -- | -- | -- | -- | (62,726) | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |
| -- | -- | -- | -- | 115,427,120 | (50,611,169) | (3,853) | -- |
| -- | -- | -- | -- | -- | (4,245,693) | -- | -- |
| -- | -- | -- | -- | 50,025 | -- | -- | -- |
| -- | -- | -- | -- | 463,540 | -- | -- | -- |
| -- | -- | -- | -- | 71,300 | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | 2,569 | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |
| -- | -- | -- | -- | 116,011,985 | (54,856,862) | (1,284) | -- |
| -- | -- | -- | -- | -- | (5,883,378) | -- | -- |
| -- | -- | -- | -- | 35,650 | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | 1,284 | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |
| -- | -- | -- | -- | 116,047,635 | (60,740,240) | -- | -- |
| -- | -- | -- | -- | -- | (7,416,333) | -- | -- |
| -- | -- | -- | -- | 14,354 | -- | -- | -- |
| -- | -- | -- | -- | 124,775 | -- | -- | -- |
| -- | -- | -- | -- | 998,750 | -- | -- | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |
| -- | -- | -- | -- | 117,185,514 | (68,156,573) | -- | -- |
| -- | -- | -- | -- | -- | (9,167,070) | -- | -- |
| -- | -- | -- | -- | 57,112 | -- | -- | -- |
| -- | -- | -- | -- | 33,425 | -- | -- | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |
| -- | -- | -- | -- | 117,276,051 | (77,323,643) | -- | -- |
| -- | -- | -- | -- | -- | (10,174,609) | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | -- |
| -- | -- | -- | -- | 38,220 | -- | -- | -- |
| -- | -- | -- | -- | 189,000 | -- | -- | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |

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| | | | | | | | |
|------|------|------|------|---------------|------------------|--------------|---------|
| -- | -- | -- | -- | 117,503,271 | (87,498,252) | -- | -- |
| -- | -- | -- | -- | -- | (10,717,360) | -- | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |
| -- | -- | -- | -- | 117,503,271 | (98,215,612) | -- | -- |
| -- | -- | -- | -- | -- | (12,250,145) | -- | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |
| -- | -- | -- | -- | 117,503,271 | (110,465,757) | -- | -- |
| -- | -- | -- | -- | 9,671,843 | -- | -- | -- |
| -- | -- | -- | -- | 74,877 | -- | -- | -- |
| -- | -- | -- | -- | 190,995 | -- | (191,250) | -- |
| -- | -- | -- | -- | -- | -- | 35,630 | -- |
| -- | -- | -- | -- | 13,846,633 | -- | -- | -- |
| -- | -- | -- | -- | 1,255,853 | -- | -- | -- |
| -- | -- | -- | -- | 2,178,664 | -- | -- | -- |
| -- | -- | -- | -- | 21,716,616 | -- | -- | -- |
| -- | -- | -- | -- | 95,550 | -- | -- | -- |
| -- | -- | -- | -- | -- | (14,573,798) | -- | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |
| -- | -- | -- | -- | 166,534,302 | (125,039,555) | (155,620) | -- |
| -- | -- | -- | -- | 71,055 | -- | (71,110) | -- |
| -- | -- | -- | -- | -- | -- | 122,121 | -- |
| -- | -- | -- | -- | 1,739,585 | -- | -- | -- |
| -- | -- | -- | -- | -- | -- | -- | (25,39) |
| -- | -- | -- | -- | 74,941 | -- | -- | -- |
| -- | -- | -- | -- | 72,577,561 | -- | -- | -- |
| -- | -- | -- | -- | -- | (20,321,456) | -- | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |
| -- | \$-- | -- | \$-- | \$240,997,444 | \$ (145,361,011) | \$ (104,609) | (25,39) |
| -- | -- | -- | -- | -- | -- | 65,770 | -- |
| -- | -- | -- | -- | 29,295 | -- | -- | -- |
| -- | -- | -- | -- | 74,943 | -- | -- | -- |
| -- | -- | -- | -- | 14,988 | -- | -- | -- |
| -- | -- | -- | -- | -- | (12,049,837) | -- | -- |
| ---- | ---- | ---- | ---- | ----- | ----- | ----- | ----- |
| -- | \$-- | -- | \$-- | \$241,116,670 | \$ (157,410,848) | \$ (38,839) | (25,39) |
| ==== | ==== | ==== | ==== | ===== | ===== | ===== | ===== |

DRAFT

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

Statements of Cash Flows

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Six months ended November 30, 2005 and 2004
and for the period from June 19, 1985
(inception) through November 30, 2005

| | SIX MONTHS ENDED NOVEMBER 30, | |
|--|-------------------------------|----------------------|
| | 2005 | 2004 |
| | ----- (unaudited) | ----- (unaudited) |
| Cash flows from operating activities: | | |
| Net loss | \$ (12,049,837) | (9,798,668) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Marketable security amortization | (971,514) | 51,869 |
| Depreciation and amortization | 123,043 | 318,969 |
| Non-cash compensation | 155,768 | 131,711 |
| Loss on sale of equipment | -- | -- |
| Changes in assets and liabilities: | | |
| Prepaid expenses | 290,882 | (66,687) |
| Other current assets | 34,588 | (117,450) |
| Other assets | -- | -- |
| Accounts payable | (899,519) | (800,838) |
| Accrued expenses | (3,164) | 196,338 |
| Accrued compensation and benefits | 557,936 | 64,718 |
| Other liabilities | (14,806) | (1,028) |
| | ----- | ----- |
| Net cash used in operating activities | (12,776,623) | (10,021,066) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchase of property, plant, equipment, and capitalized engineering costs | (235,644) | (108,237) |
| Proceeds from sale of land and equipment | -- | -- |
| Proceeds from matured marketable securities | 99,170,000 | 6,450,000 |
| Proceeds from sale of marketable securities | -- | -- |
| Purchase of marketable securities | (49,357,247) | (18,014,865) |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | 49,577,109 | (11,673,102) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 29,324 | 1,548,245 |
| 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 | 29,324 | 1,548,245 |
| | ----- | ----- |
| Net (decrease) increase in cash | 36,829,810 | (20,145,923) |
| Cash and cash equivalents at beginning of period | 6,800,405 | 39,042,884 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 43,630,215 | 18,896,961 |
| | ===== | ===== |
| Supplemental schedule of noncash financing activities: | | |
| Exercise of stock option, 5,000 shares in exchange for 1,717 treasury shares | \$ -- | -- |

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See accompanying notes to financial statements and accountants' review report.

NORTHFIELD LABORATORIES INC.
(A COMPANY IN THE DEVELOPMENT STAGE)
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2005
(UNAUDITED)

(1) BASIS OF PRESENTATION

The interim financial statements presented are unaudited but, in the opinion of management, have been prepared in conformity with accounting principles generally accepted in the United States of America applied on a basis consistent with those of the annual financial statements. Such interim financial statements reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows 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 full fiscal years. The interim financial statements should be read in connection with the audited financial statements for the year ended May 31, 2005.

(2) USE OF ESTIMATES

Our management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(3) 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 we reported net losses for all periods presented, basic and diluted per share amounts are the same. As of November 30, 2005, we have 1,544,125 options and 212,392 warrants that were excluded from the net loss per share calculation because their inclusion would have been anti-dilutive.

(4) STOCK OPTIONS

We account for our stock options granted to directors, officers, and key employees 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 exceeds the exercise price. No stock option 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 we had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock Based Compensation" to the measurement of stock-based employee compensation,

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including straight-line recognition of compensation costs over the related vesting periods for fixed awards:

| | Three Months Ended | | Six Months Ended | |
|--|----------------------|----------------------|----------------------|------------------|
| | November 30, 2005 | November 30, 2004 | November 30, 2005 | November 2004 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudi |
| Net loss as reported | \$ (6,269,111) | (4,931,699) | (12,049,837) | (9,798, |
| Add: Stock based compensation expense included in statements of operations | 122,705 | 107,870 | 155,770 | 131, |
| Deduct: Total stock based compensation expense determined under the fair value method for all awards | (1,144,955) | (639,175) | (1,642,070) | (897, |
| | (7,291,361) | (5,463,004) | (13,536,137) | (10,564, |
| Basic and diluted loss per share: | | | | |
| As reported | (0.23) | (0.23) | (0.45) | (0 |
| Pro forma | (0.27) | (0.25) | (0.51) | (0 |
| | ===== | ===== | ===== | ===== |

The weighted-average fair value of options granted during the periods ended November 30, 2005 and 2004 were \$9.28 and \$9.29 respectively.

For purposes of calculating the compensation cost consistent with SFAS 123, the fair value of each option grant is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the periods ended November 30, 2005 and 2004:

| | NOVEMBER 30, 2005 | NOVEMBER 30, 2004 |
|-----------------------------|----------------------|----------------------|
| | ----- | ----- |
| Expected volatility | 71.6% | 70.3% |
| Risk-free interest rate ... | 4.2% | 4.0% |
| Dividend yield | -- | -- |
| Expected lives | 7.2 years | 7.8 years |
| | ===== | ===== |

(5) RECENTLY ISSUED ACCOUNTING STANDARD

In December 2004, Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), "Share-Based Payment: an amendment of FASB Statements No. 123 and 95", was issued. This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", and requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based awards issued to employees. The Statement is effective for public companies with annual periods beginning after June 15, 2005. The Company will adopt SFAS

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123(R) during the three-month period ended August 31, 2006. We will assess the impact of the transition to this new accounting standard during the upcoming months.

(6) MARKETABLE SECURITIES

We invest in U.S. treasury securities, obligations of U.S. government agencies and high grade commercial paper. We have the intent and ability to hold these securities until maturity and all securities have a maturity of less than one year.

The fair market value of our marketable securities was \$42,464,294 at November 30, 2005, which included gross unrealized holding losses of \$24,756. The fair market value of our marketable securities was \$91,209,903 at May 31, 2005, which included gross unrealized holding losses of \$120,386. All of these marketable securities are scheduled to mature in less than one year.

DRAFT

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

RECENT DEVELOPMENTS

We are currently enrolling patients in a pivotal Phase III trial in which our PolyHeme(R) hemoglobin-based oxygen-carrying resuscitative fluid is being used for the first time in the U.S. to treat severely injured patients in hemorrhagic shock before they reach the hospital. Under this protocol, treatment with PolyHeme begins at the scene of the injury or in the ambulance and continues during transport and the initial 12-hour post-injury period in the hospital. Since blood is not presently carried in ambulances, the use of PolyHeme in this setting has the potential to improve survival and address a critical, unmet medical need.

As of December 31, 2005, 28 clinical sites in the United States were enrolling patients in our pivotal Phase III trial and four other sites had received final Institutional Review Board, or IRB, approval and were preparing to begin patient enrollment. Each of the sites participating in the trial is designated as a Level I trauma center, indicating its capacity to treat the most severely injured trauma patients. We anticipate a total of 30 or more clinical sites across the United States will eventually participate in the trial. The trial has an expected enrollment of 720 patients.

As part of our trial protocol, an Independent Data Monitoring Committee, or IDMC, is responsible for periodically evaluating the safety data from the trial and making recommendations relating to the continuation or modification of the trial protocol to minimize any identified risks to patients. The trial protocol includes four planned evaluations by the IDMC that occur after 60, 120, 250 and 500 patients have been enrolled and monitored for a 30 day follow up period. All four reviews have occurred and at the recommendation of the IDMC the trial continues without modification. The IDMC continues to receive and assess all cumulative safety data on the patients enrolled for the reviews, focusing on mortality and serious adverse events. We

receive a recommendation from the IDMC after each review, but we will not have access to the trial data reviewed by the IDMC until the trial is completed and the database has been cleaned and locked by our contract research organization.

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As of December 31, 2005, approximately 580 patients had been enrolled in the study. Our current goal is to complete the patient enrollment phase early in calendar year 2006. Our ability to achieve this goal will depend, in part, on the number of clinical sites participating in our trial and the ability of these sites to enroll patients at the projected rates.

The progress of our pivotal Phase III trial and the timing and outcome of the Food and Drug Administration, or FDA, review process are subject to significant risks and uncertainties, many of which are outside of our control. We urge you to review the "Risk Factors" section in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission for a discussion of certain of these risks and uncertainties.

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. 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, 2005, we have incurred operating losses totaling \$157,411,000.

We will be required to complete our pivotal Phase III trial and obtain FDA regulatory approval before PolyHeme can be sold commercially. The FDA regulatory process is subject to significant risks and

uncertainties, and we therefore cannot at this time reasonably estimate the timing of any future revenues from the commercial sale of PolyHeme. The costs incurred by Northfield to date and during each period presented below in connection with our development of PolyHeme are described in the Statements of Operations in our financial statements.

Our success will depend on several factors, including our ability to obtain FDA regulatory approval of PolyHeme and our manufacturing facilities, obtain sufficient quantities of human red blood cells to manufacture PolyHeme in commercial quantities, manufacture and distribute PolyHeme in a cost-effective manner, enforce our patent positions and raise sufficient capital to fund these activities. 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.

RESULTS OF OPERATIONS

We reported no revenues for either of the three and six-month periods ended November 30, 2005 or November 30, 2004. From Northfield's inception through November 30, 2005, 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, 2005 totaled \$7,033,000, an increase of \$1,945,000 from the \$5,088,000 reported in the second quarter of fiscal 2004. Measured on a percentage basis, second fiscal quarter 2006 operating expenses exceeded fiscal 2005 expenses by 38.2%. As expected, significant increases in operating expenses were incurred to conduct, expand, report and support our pivotal Phase III trial.

Research and development expenses during the second quarter of fiscal 2006

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totalled \$5,573,000, an increase of \$1,396,000, or 33.4%, from the \$4,177,000 reported in the second quarter of fiscal 2005. Our pivotal Phase III trial is enrolling patients and we continue to actively pursue additional clinical sites to participate in the trial. We anticipate that these expenses will continue to grow consistent with the rate of patient enrollment and site initiation. Also included in the second quarter research and development expenses were costs related to increased use of science and regulatory consultants to prepare for the reporting of data from our trial to FDA.

General and administrative expenses in the second quarter of fiscal 2006 totalled \$1,460,000, which is an increase of \$550,000, or 60.4%, from the \$910,000 of general and administrative expenses reported in the second quarter of fiscal 2005. The increased expenses in the second quarter of fiscal 2006 compared to the second quarter of fiscal year 2005 were due to increased professional service fees, bonus accruals for officers and staff, insurance costs, and state taxes determined by our capital structure. We anticipate only modest general and administrative expense increases for the remainder of the fiscal year. No new general and administrative programs are currently planned, as successfully completing our pivotal Phase III trial remains our primary focus.

For the six-month period ended November 30, 2005, operating expenses of \$13,516,000 exceeded the operating expenses of \$10,075,000 incurred in the six-month period ended November 30, 2004. The dollar increase was \$3,441,000 and the percentage increase equaled 34.2%. The increases were primarily attributed to the planning, preparation, execution, analysis and reporting of our pivotal Phase III trial.

Research and development expenses for the six-month period ended November 30, 2005 totalled \$10,667,000, which represents a \$2,451,000, or 29.8%, increase from the comparable expenses incurred in the six-month period ended November 30, 2004. During the six-month period for the current fiscal year, increased expenses totaling \$1,689,000 were reported for clinical site activities and the direct costs of monitoring, analysis and reporting. During the six-month period ended November 30, 2005, the organization has expanded by five net hires contributing to increased compensation and

recruiting costs. Also this fiscal year we are conducting additional work in multiple areas to refresh and update our database in preparation for a license application to FDA.

General and administrative expenses for the six-month period ended November 30, 2005 totalled \$2,849,000, which is an increase of \$990,000, or 53.3%, from the \$1,859,000 of general and administrative expenses reported for the six-month period ended November 30, 2004. The increased expenses this fiscal year are due to increased professional service fees, bonus accruals for officers and staff, insurance costs, and state taxes determined by our capital structure.

INTEREST INCOME

Interest income for the three-month period ended November 30, 2005 totalled \$764,000, an increase of \$608,000 from the \$156,000 in interest income reported in the three-month period ended November 30, 2004. The increase in our interest income was primarily due to our improved cash position resulting from our successful equity financing during the last 12 months. Our reported cash and marketable securities balance of \$86.1 million as of November 30, 2005 compares favorably with a cash and marketable securities balance of \$33.9 million as of November 30, 2004. Combining increased cash availability and increasing short-term interest rates has allowed us to report significantly higher interest income.

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Interest income for the six-month period ended November 30, 2005 totaled \$1,466,000, an increase of \$1,190,000 from the \$276,000 in interest income reported in the six-month period ended November 30, 2004. The increase in cash balances and higher short-term interest rates caused interest income to increase. We continue to invest our funds only in high grade, short-term instruments.

NET LOSS

Our net loss for the three-month period ended November 30, 2005 totaled \$6,269,000, or \$0.23 per share, compared to a net loss of \$4,932,000, or \$0.23 per share, for the three-month period ended November 30, 2004. In dollar

terms, the loss increased by \$1,337,000, or 27.1%, primarily as a result of the increased expenses relating to our pivotal Phase III trial.

On a fiscal year to date basis, we reported a loss of \$12,050,000, or \$0.45 per share, compared to a prior year six-month loss of \$9,799,000, or \$0.46 per share. The increased net loss of \$2,251,000, or 23.0%, was primarily the result of increased expenses relating to our pivotal Phase III trial during the first six-months of the current fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

From Northfield's inception through November 30, 2005, we have used cash in operating activities and for the purchase of property, plant, equipment and engineering services in the amount of \$154,646,000. For the six-months ended November 30, 2005 and November 30, 2004, these cash expenditures totaled \$13,012,000 and \$10,129,000, respectively. The current fiscal year six-month increase in cash utilization is due primarily to expenses related to our pivotal Phase III trial and professional service costs.

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. As of November 30, 2005, we had cash and marketable securities totaling \$86,119,000. As previously reported, we have been successful in securing a \$1.4 million federal appropriation as part of the Defense Appropriation Bill in 2004 and expect to receive a larger appropriation this year. As of November 30, 2005, we have not yet received these funds.

We are currently utilizing our cash resources at a rate of approximately \$26 million per year. We expect, however, that the rate at which we utilize our cash resources will significantly increase over the next two years as we launch our planned commercial plant expansion and further expand our business organization for product launch.

We anticipate that our expenditures for site monitoring and patient enrollment in connection with our current Phase III clinical trial will be completed in calendar 2006, while substantial additional costs will be incurred during

calendar 2006 to complete and submit a Biologics License Application for PolyHeme with FDA. We also expect to incur additional expenses as we build manufacturing, sales, marketing and distribution capabilities in support of the commercialization of PolyHeme.

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Based on our current estimates, we believe our existing capital resources will be sufficient to permit us to conduct our operations, including the planned expansion of our manufacturing, sales, marketing and distribution capabilities, for the next two years.

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 are also pursuing potential sources of additional 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 or enter into a collaborative arrangement with a strategic partner will depend primarily on the results of our clinical trial, as well as general conditions in the business and financial markets. An inability to raise sufficient levels of capital could materially delay or prevent the commercialization of PolyHeme, even if approved by FDA.

Our capital requirements may vary materially from those now anticipated because of the timing and results of our clinical testing of PolyHeme, 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 our 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, 2005, 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, 2005:

| Contractual Obligations | TOTAL | LESS THAN ONE YEAR | 1-3 YEARS | 4-5 YEARS |
|--|-------------|-----------------------|-------------|--------------|
| ----- | ----- | ----- | ----- | ----- |
| Lease Obligations (1) | \$3,084,252 | \$ 843,040 | \$1,692,077 | \$549,135 |
| Other Obligations (2) | 1,251,250 | 1,251,250 | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total Contractual Cash Obligations | \$4,335,502 | \$2,094,290 | \$1,692,077 | \$549,135 |
| | ===== | ===== | ===== | ===== |

-
- (1) The lease for our Evanston headquarters is cancelable with six months notice combined with a termination payment equal to three months base rent at any time after February 14, 2009. If the lease is cancelled as of February 15, 2009 unamortized broker commissions of \$17,470 would also be due.
 - (2) Represents payments required to be made upon termination of employment agreements with two of our executive officers. The employment contracts renew automatically unless terminated. Figures shown represent compensation payable upon the termination of the employment agreements for reasons other than death, disability, cause or voluntary termination of employment by the executive officer other than for good reason. Additional payments may be required under the employment agreements in connection with a termination of employment of the executive officer following a change in control of Northfield.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We currently do not have any foreign currency exchange risk. We invest our 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 our short-term investments, we believe that the financial market risk exposure is not material. A one percentage point decrease in the interest rate received on our cash and marketable securities of \$86.1 million at November 30, 2005 would decrease interest income by \$861,000 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. 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 4. Submission of Matters to a Vote of Security Holders

Our annual meeting of stockholders was held on September 29, 2005 for the purpose of electing directors, ratifying the appointment of KPMG LLP as our independent registered public accounting firm and voting on the stockholder proposals listed below. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was no solicitation in opposition to management's solicitation. Each of the management's nominees for directors, as listed in the proxy statement, was elected with the number of votes set forth below.

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| NOMINEE | FOR | WITHHELD |
|-----------------------|------------|-----------|
| ----- | ----- | ----- |
| Steven A. Gould, M.D. | 24,540,957 | 990,786 |
| John F. Bierbaum | 24,797,965 | 733,778 |
| Bruce S. Chelberg | 24,838,687 | 693,056 |
| Paul M. Ness, M.D. | 23,724,506 | 1,807,237 |
| Jack Olshansky | 24,641,111 | 890,632 |
| David A. Savner | 24,798,015 | 733,728 |
| Edward C. Wood, Jr. | 24,881,835 | 649,908 |

The aforesaid nominees have been elected as Directors.

The results of other matters voted upon at the annual meeting are as follows:

| PROPOSAL | FOR | AGAINST | ABSTAIN | NON VOTES |
|---|------------|-----------|---------|--------------|
| ----- | ----- | ----- | ----- | ----- |
| The proposal to ratify the appointment of KPMG LLP as independent auditors of the Company to serve for the Company's 2006 fiscal year was approved. | 24,879,075 | 378,458 | 274,210 | |
| The proposal to approve to amend the Company's Restated Certificate of Incorporation to increase the number of authorized shares of the Company's Common Stock, par value \$.01 per share, from 30,000,000 to 60,000,000 shares was approved. | 22,866,747 | 2,576,837 | 88,159 | |
| The proposal to approve an amendment to The Northfield Laboratories Inc. 2003 Equity Compensation Plan to increase the number of shares available for awards under the Plan from 750,000 to 2,250,000 shares was approved. | 8,621,176 | 3,619,838 | 126,493 | 13,164,236 |

ITEM 6. EXHIBITS

- Exhibit 3.1 - Restated Certificate of Incorporation of Northfield Laboratories Inc. (incorporated herein by reference to Exhibit 3.1.1 to the Company's Quarterly Report on Form 10-Q for the Company's quarter ended November 30, 1999)
- Exhibit 3.2 - Amendment to Restated Certificate of Incorporation of Northfield Laboratories Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated September 29, 2005)
- Exhibit 10.1 - Northfield Laboratories Inc. 2003 Equity Compensation Plan, as amended and restated (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 29, 2005)

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- Exhibit 15 - Letter RE: unaudited interim financial information

- Exhibit 31.1 - Certification of Steven A. Gould, M.D., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- Exhibit 31.2 - Certification of Jack J. Kogut, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 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

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 9, 2006.

SIGNATURE

TITLE

/s/ Steven A. Gould, M.D.

Steven A. Gould, M.D.

Chairman of the Board and Chief
Executive Officer

/s/ Jack J. Kogut

Jack J. Kogut

Sr. Vice President and Chief Financial
Officer