NORTHFIELD LABORATORIES INC /DE/
Form 10-Q
October 11, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 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	36-3378733
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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

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).

YES No X
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AS OF AUGUST 31, 2005, REGISTRANT HAD 26,753,897 SHARES OF COMMON STOCK OUTSTANDING

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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 August 31, 2005, and the related statements of operations and cash flows for the three-month periods ended August 31, 2005 and August 31, 2004. We have also reviewed the statements of shareholders' equity (deficit) for the three-month period ended August 31, 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 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) is fairly stated, in all material respects, in relation to the statements from which it has been derived.

/s/ KPMG LLP

Chicago, Illinois
October 7, 2005

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

Balance Sheets

August 31, 2005 and May 31, 2005

ASSETS	AUGUST 31, 2005 (unaudited)	MAY 3 2005
Current assets:		
Cash and cash equivalents	$ 16,976,610	6,80
Marketable securities	74,821,186	91,33
Prepaid expenses	714,132	82
Other current assets	143,080	13
Total current assets	92,655,008	99,09
Property, plant, and equipment	14,921,968	14,79
Accumulated depreciation	(14,021,278)	(13,96
Net property, plant, and equipment	900,690	83
Other assets	69,270	6
	$ 93,624,968	100,00
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,572,244	3,32
Accrued expenses	68,886	11
Accrued compensation and benefits	676,627	53
Total current liabilities	3,317,757	3,97
Other liabilities	251,590	25

Total liabilities	3,569,347	4,22
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 26,755,614 at August 31, 2005 and 26,752,739 at May 31, 2005	267,556	26
Additional paid-in capital	241,026,739	240,99
Deficit accumulated during the development stage	(151,141,737)	(145,36
Deferred compensation	(71,544)	(10
	90,081,014	95,79
Less cost of common shares in treasury; 1,717 shares	(25,393)	(2
Total shareholders' equity	90,055,621	95,77
	$ 93,624,968	100,00

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

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

Statements of Operations

Three months ended August 31, 2005 and 2004 and for the period from June 19, 1985 (inception) through August 31, 2005

	Three months ended August 31,		Cumulati from June 19, 1 through
	2005	2004	AUGUST 31,
	(unaudited)	(unaudited)	(unaudite
Revenues - license income	$ --	--	3,000,0
Costs and expenses:			
Research and development	5,093,874	4,038,436	128,709,6
General and administrative	1,388,994	948,725	50,832,5
	6,482,868	4,987,161	179,542,2
Other income and expense:			
Interest income	702,142	120,192	25,558,6
Interest expense	--	--	83,2

	$ 702,142	120,192	25,475,4
Net loss before cumulative effect of change in accounting principle	(5,780,726)	(4,866,969)	(151,066,8
Cumulative effect of change in accounting principle	--	--	74,9
Net loss	$ (5,780,726)	(4,866,969)	(151,141,7
Net loss per share - basic and diluted	$ (0.22)	(0.23)	(13.
Shares used in calculation of per share data - basic and diluted	26,751,396	21,404,374	11,089,1

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

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

Statements of Shareholders' Equity (Deficit)

Three months ended August 31, 2005 and for
the period from June 19, 1985 (inception) through August 31, 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	--	--
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				
NUMBER OF SHARES	AGGREGATE AMOUNT	NUMBER OF SHARES	AGGREGATE AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	DEFERRE COMPEN SATION
--	$ --	--	$ --	$ (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,
--	--	--	--	--	--	720,
250,000	250,000	--	--	2,982,850	(3,037,641)	(1,620,
--	--	200,633	200,633	6,882,502	--	
--	--	--	--	--	(3,057,254)	
--	--	--	--	--	--	566,
250,000	250,000	200,633	200,633	9,865,352	(6,094,895)	(1,053,
--	--	--	--	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,
--	--	--	--	--	--	800,
--	--	--	--	35,728,451	(6,886,101)	(936,
--	--	--	--	--	(3,490,394)	
--	--	--	--	699,163	--	(699,
--	--	--	--	--	--	546,
--	--	--	--	36,427,614	(10,376,495)	(1,089,
--	--	--	--	--	(5,579,872)	
--	--	--	--	--	--	435,
--	--	--	--	36,427,614	(15,956,367)	(653,
--	--	--	--	503,100	--	
--	--	--	--	--	(7,006,495)	
--	--	--	--	--	--	254,
--	--	--	--	36,930,714	(22,962,862)	(399,
--	--	--	--	106,890	--	
--	--	--	--	5,663,710	--	
--	--	--	--	--	(8,066,609)	
--	--	--	--	--	--	254,
--	--	--	--	42,701,314	(31,029,471)	(145,
--	--	--	--	--	(7,363,810)	
--	--	--	--	14,163,851	--	
--	--	--	--	(85,400)	--	85,
--	--	--	--	--	--	

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

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

Statements of Shareholders' Equity (Deficit)

Three months ended August 31, 2005 and for the period
from June 19, 1985 (inception) through August 31, 2005

	PREFERRED STOCK	
	NUMBER OF SHARES	AGGREGATE AMOUNT
Net loss		
Issuance of common stock at $17.75 per share on August 9, 1995	--	$ --
(net of issuance costs of $3,565,125)	--	--
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	--	--
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	--	--
Net loss	--	--
Exercise of stock options at $7.14 per share	--	--
Amortization of deferred compensation	--	--
	-----	-----
Balance at May 31, 1998	--	--
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	--	--
Net loss	--	--

Non-cash compensation	--	--
Exercise of stock options at $13.38 per share	--	--
Balance at May 31, 2000	--	--
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	--	--
Net loss	--	--
Balance at May 31, 2002	--	--
Net loss	--	--
Balance at May 31, 2003	--	--
Issuance of common stock at $5.60 per share on July 28, 2003 (net of costs of issuance of $909,229)	--	--
Issuance of common stock to directors at $6.08 per share on October 30, 2003	--	--
Deferred compensation related to stock grants	--	--
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)	--	--
Issuance of common stock at $5.80 per share on February 18, 2004 (net of costs of issuance of $116,423)	--	--
Issuance of common stock at $5.80 per share on April 15, 2004 (net of costs of issuance of $192,242)	--	--
Issuance of common stock at $12.00 per share on May 18, 2004 (net of costs of issuance of $1,716,831.36)	--	--
Exercise of stock options at $6.38 per share	--	--
Net loss	--	--
Balance at May 31, 2004		
Deferred compensation related to stock grants	--	--
Amortization of deferred compensation	--	--
Exercise of stock options between $5.08 and $14.17 per share	--	--
Cost of shares in treasury, 1,717 shares	--	--
Issuance of common stock to directors at $12.66 per share on September 21, 2004	--	--
Issuance of common stock at $15.00 per share on February 9, 2005 (net of costs of issuance of $4,995,689)	--	--
Net loss	--	--
Balance at May 31, 2005	--	$ --
Amortization of deferred compensation (unaudited)	--	--
Exercise of stock options at $7.13 and $10.66 per share (unaudited)	--	--
Net loss (unaudited)	--	--
Balance at August 31, 2005 (unaudited)	--	$ --

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

SERIES A CONVERTIBLE PREFERRED STOCK		SERIES B CONVERTIBLE PREFERRED STOCK			ACCUMULATED	
NUMBER	AGGREGATE	NUMBER	AGGREGATE	ADDITIONAL PAID-IN	DURING THE DEVELOPMENT	DEFERRED COMPEN-

OF SHARES	AMOUNT	OF SHARES	AMOUNT	CAPITAL	STAGE	SATION
--	$ --	--	$ --	--	$ (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	--	--
--	--	--	--	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	--	--
--	--	--	--	--	--	--
--	--	--	--	74,941	--	--
--	--	--	--	72,577,561	--	--
--	--	--	--	--	(20,321,456)	--
--	$ --	--	$ --	$ 240,997,444	$(145,361,011	$ (104,609)
--	--	--	--	--	--	33,065
--	--	--	--	29,295	--	--
--	--	--	--	--	(5,780,726)	--
--	$ --	--	$ --	$ 241,026,739	$(151,141,737)	$ (71,544)

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

Statements of Cash Flows

Three months ended August 31, 2005 and 2004
and for the period from June 19, 1985
(inception) through August 31, 2005

	Three months ende
	2005
	(unaudited)
Cash flows from operating activities:	
Net loss	$ (5,780,726)
Adjustments to reconcile net loss to net cash used in operating activities:	
Marketable security amortization	(484,070)
Depreciation and amortization	59,707
Non-cash compensation	33,065
Loss on sale of equipment	--
Changes in assets and liabilities:	
Prepaid expenses	112,609
Other current assets	(3,272)
Other assets	--
Accounts payable	(753,326)
Accrued expenses	(41,793)
Accrued compensation and benefits	136,844
Other liabilities	8
Net cash used in operating activities	(6,720,954)
Cash flows from investing activities:	
Purchase of property, plant, equipment, and capitalized engineering costs	(125,337)
Proceeds from sale of land and equipment	--

Proceeds from matured marketable securities	37,820,000
Proceeds from sale of marketable securities	--
Purchase of marketable securities	(20,826,828)
Net cash provided by (used in) investing activities	16,867,835
Cash flows from financing activities:	
Proceeds from issuance of common stock	29,324
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
Net (decrease) increase in cash	10,176,205
Cash at beginning of period	6,800,405
Cash at end of period	$ 16,976,610
Supplemental schedule of noncash financing activities:	
Exercise of stock option, 5,000 shares in exchange for 1,717 treasury shares	$ --

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

NORTHFIELD LABORATORIES INC.
(A COMPANY IN THE DEVELOPMENT CHANGE)
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 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 August 31, 2005, we have 1,401,625 options and 212,392 warrants that were excluded from the net loss per share calculation because their inclusion would have been antidilutive.

(4) STOCK OPTIONS

We account for our 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 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, including a straight-line recognition of compensation costs over the related vesting periods for fixed awards:

	Three Months Ended	
	August 31, 2005	August 31, 2004
	(unaudited)	(unaudited)
Net loss as reported	$(5,780,726)	(4,866,969)
Add: Stock based compensation expense included in statements of operations	33,065	23,841
Deduct: Total stock based compensation expense determined under the fair		

value method for all awards	(469,812)	(269,613)
Pro forma net loss	$(6,217,473)	(5,112,741)
Basic and diluted loss per share:		
As reported	(0.22)	(0.23)
Pro forma	(0.23)	(0.24)

The weighted-average fair value of options granted during the period ended August 31, 2005 and 2004 was $8.62 and $9.10, 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 August 31, 2005 and 2004:

	2005	2004
Expected volatility	74.3%	68.6%
Risk-free interest rate	3.9%	4.5%
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 compensation issued to employees. The Statement is effective for public companies with annual periods beginning after June 15, 2005. The Company will adopt SFAS 123(R) for the three-month period ended August 31, 2006. The Company will assess the impact of the transition to this new accounting standard during the upcoming months.

(6) MARKETABLE SECURITIES

The Company invests in U.S. treasury securities, obligations of U.S. government agencies and high grade commercial paper. The Company has 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 the Company's marketable securities was $74,744,979 at August 31, 2005, which included gross unrealized holding losses of $76,207. The fair market value of the Company's 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.

(7) SUBSEQUENT EVENT

At the 2005 Annual Meeting on September 29, 2005, the stockholders of the Company approved an amendment to the Company's restated certificate of incorporation to increase the number of authorized shares of the Company's common stock from 30,000,000 to 60,000,000 shares.

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 September 30, 2005, 23 clinical sites in the United States were enrolling patients in our pivotal Phase III trial and seven other sites had received final Institutional Review Board, or IRB, approval and were preparing to begin patient enrollment. Multiple additional sites were engaged in the pre-trial public disclosure and community consultation process. 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 25 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 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. The IDMC focuses its reviews on mortality and serious adverse events and evaluates all safety data as the trial continues. 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.

As of September 30, 2005, approximately 500 patients had been enrolled in the study. Enrollment in the trial continues during the 30-day follow-up period, data preparation and analysis, and meetings of the IDMC; therefore, the disclosure of the IDMC recommendation does not correspond to the current status of patient enrollment. We anticipate that the IDMC will complete its final interim review of safety data on the first 500 patients enrolled in our trial and make a recommendation to us in the fourth calendar quarter of 2005. Patient enrollment in our trial will continue during the IDMC review process.

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(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 August 31, 2005, we have incurred operating losses totaling $151,142,000.

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 blood 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-month periods ended August 31, 2005 or 2004. From Northfield's inception through August 31, 2005, we have reported total revenues of $3,000,000, all of which were derived from licensing fees.

OPERATING EXPENSES

Operating expenses for our first fiscal quarter ended August 31, 2005 totaled $6,483,000, an increase of $1,496,000, or 30.0%, from the $4,987,000 reported in the first quarter of fiscal 2005. As expected, significant increases in operating expenses were incurred to conduct, expand, report and support our pivotal phase III trial and to support our efforts relating to internal controls compliance required under the Sarbanes-Oxley Act.

Research and development expense during the first quarter of fiscal 2006 totaled $5,094,000, an increase of $1,056,000, or 26.2%, from the $4,038,000 reported in the first quarter of fiscal 2005. The increase is primarily due to costs associated with our pivotal phase III trial. Our pivotal phase III trial continues to expand as we continue to actively pursue additional Level I trauma sites to participate.

General and administrative expenses in the first quarter of fiscal 2006 totaled $1,389,000, which is an increase of $440,000, or 46.4%, from the general and administrative expenses reported in the first quarter of fiscal 2005 of $949,000. The increased expenses this year are due to legal and accounting costs for Sarbanes-Oxley internal controls compliance work.

INTEREST INCOME

Interest income for the three-month period ended August 31, 2005 totaled $702,000, an increase of $582,000 from the $120,000 in interest income reported in the three-month period ended August 31, 2004. Following our successful fund raising efforts in fiscal 2005, Northfield started the fiscal year 2006 with $98,131,000 in available cash and marketable securities. This compares to available cash resources at the beginning of fiscal 2005 of $42,487,000. The significant increase in cash balances and an increase in available short-term interest rates caused interest income to increase. We continue to invest our funds only in high grade, short-term instruments.

NET LOSS

The net loss for the three-month period ended August 31, 2005 totaled $5,781,000, or $0.22 per share, compared to a net loss of $4,867,000, or $0.23 per share, for the first quarter ended August 31, 2004. In dollar terms the loss increased by $914,000, or 18.8%, but on a per share basis the dilutional effect of our additional 5,347,000 weighted average shares outstanding in the current period caused a 4.4% decrease in loss per share.

LIQUIDITY AND CAPITAL RESOURCES

From Northfield's inception through August 31, 2005, we have used cash in operating activities and for the purchase of property, plant, equipment and engineering services in the amount of $148,480,000. For the first fiscal quarters ended August 31, 2005 and 2004, these cash expenditures totaled $6,846,000 and $5,603,000, respectively. The first fiscal quarter 2006 increase in cash utilization is due primarily to expenses related to our pivotal Phase III trial and our Sarbanes-Oxley internal controls compliance work.

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 August 31, 2005, we had cash and marketable securities totaling $91,798,000.

We believe our existing capital resources will be adequate to fund the completion of the patient enrollment phase of our pivotal phase III clinical trial, the preparation and submission of a Biologics License Application for PolyHeme with FDA, our planned construction of a 75,000-unit commercial manufacturing facility, and our operating capital requirements for approximately the next 24 months. Thereafter, we may require substantial additional funding to continue our operations.

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 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 August 31, 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 August 31, 2005:

CONTRACTUAL CASH OBLIGATIONS	TOTAL	LESS THAN ONE YEAR	1-3 YEARS	
Lease Obligations(1)	$3,304,828	$ 854,288	$1,688,698	$
Other Obligations	1,251,250	1,251,250	--	
Total Contractual Cash Obligations	$4,556,078	$2,105,538	$1,688,698	$

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(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 14, 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS 123R which requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our statements of operations over the relevant service period. The accounting provisions of SFAS 123R are effective for annual reporting periods beginning after June 15, 2005. We are required to adopt SFAS 123R for the period ended August 31, 2006. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. Although we have not yet determined whether the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123, we are evaluating the requirements under SFAS 123R and expect the adoption to have an impact on our statements of operations.

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 $91.8 million at August 31, 2005 would decrease interest income by $918,000 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 6. EXHIBITS

a)	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

b) None

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 October 11, 2005.

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