NORTHFIELD LABORATORIES INC /DE/
Form 10-Q
October 15, 2002

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE PERIOD ENDED AUGUST 31, 2002

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-24050

NORTHFIELD LABORATORIES INC.
(Exact name of registrant as specified in its charter)

DELAWARE	36-3378733
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1560 SHERMAN AVENUE, SUITE 1000, EVANSTON, ILLINOIS (Address of principal executive offices)	60201-4800 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (847) 864-3500

FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT: NOT APPLICABLE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES X NO ___

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS FILED ALL DOCUMENTS AND REPORTS REQUIRED TO BE FILED BY SECTION 12, 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 SUBSEQUENT TO THE DISTRIBUTION OF SECURITIES UNDER A PLAN CONFIRMED BY A COURT. YES ___ NO ___

AS OF AUGUST 31, 2002, REGISTRANT HAD 14,265,875 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," "should" and "believes."

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 the Annual Report on Form 10-K for our 2002 fiscal year. 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 a lot of 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. We will have no obligation to revise these forward-looking statements.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Northfield Laboratories Inc.:

We have reviewed the balance sheet of Northfield Laboratories Inc. (a company in the development stage) as of August 31, 2002, and the related statements of operations and cash flows for the three-month periods ended August 31, 2002 and 2001 and for the period from June 19, 1985 (inception) through August 31, 2002. We have also reviewed the statements of shareholders' equity (deficit) for the three-month period ended August 31, 2002 and for the period from June 19, 1985 (inception) through August 31, 2002. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Northfield Laboratories Inc. as of May 31, 2002, 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, 2002 (not presented herein); and in our report dated July 16, 2002, 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, 2002 and in the accompanying statement of shareholders' equity (deficit) is fairly stated, in all material respects, in relation to the statement from which it has been derived.

/s/ KPMG LLP

Chicago, Illinois
October 11, 2002

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

Balance Sheets

August 31, 2002 and May 31, 2002

ASSETS	AUGUST 31, 2002 (unaudited)	MAY 31 2002
Current assets:		
Cash	$ 12,535,562	17,668
Marketable securities	2,677,249	720
Prepaid expenses	487,381	540
Other current assets	6,439	1
Total current assets	15,706,631	18,930
Property, plant, and equipment, net	2,074,029	2,232
Other assets	72,158	72
	$ 17,852,818	21,234
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 571,868	1,077
Accrued expenses	300,599	210
Accrued compensation and benefits	250,967	338
Total current liabilities	1,123,434	1,626

Other liabilities	176,655	177
Total liabilities	1,300,089	1,804
Shareholders' equity:		
Preferred stock, $.01 par value. Authorized 5,000,000 shares; none issued and outstanding	--	
Common stock, $.01 par value. Authorized 30,000,000 shares; issued and outstanding 14,265,875 at August 31, 2002 and May 31, 2002	142,659	142
Additional paid-in capital	117,503,271	117,503
Deficit accumulated during the development stage	(101,093,201)	(98,215
Total shareholders' equity	16,552,729	19,430
	$ 17,852,818	21,234

See accompanying notes to financial statements.

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

Statements of Operations (unaudited)

Three months ended August 31, 2002 and 2001 and for the period from June 19, 1985 (inception) through August 31, 2002

	THREE MONTHS ENDED AUGUST 31,		CUMULATIVE FROM JUNE 19, 1985 THROUGH AUGUST 31, 2002
	2002	2001	
Revenues - license income	$ --	--	3,000,000
Costs and expenses:			
Research and development	2,025,802	2,648,674	89,446,322
General and administrative	929,157	842,960	37,886,053
	2,954,959	3,491,634	127,332,375
Other income and expense:			
Interest income	77,370	301,062	23,322,408
Interest expense	--	--	83,234

	77,370	301,062	23,239,174
Net loss	$ (2,877,589)	(3,190,572)	(101,093,201)
Net loss per share - basic and diluted	$ (0.20)	(0.22)	(10.45)
Shares used in calculation of per share data - basic and diluted	14,265,875	14,265,875	9,669,675

See accompanying notes to financial statements.

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

Statements of Shareholders' Equity (Deficit)

Three months ended August 31, 2002 (unaudited) and for the period from June 19, 1985 (inception) through August 31, 2002 (unaudited)

	PREFERRED STOCK		COMMON STOCK	
	NUMBER OF SHARES	AGGREGATE AMOUNT	NUMBER OF SHARES	AGGREGATE AMOUNT
Issuance of common stock on August 27, 1985	--	$ --	3,500,000	$ 35,000
Issuance of Series A convertible preferred stock at $4.00 per share on August 27, 1985 (net of costs of issuance of $79,150)	--	--	--	--
Net loss	--	--	--	--
Balance at May 31, 1986	--	--	3,500,000	35,000
Net loss	--	--	--	--
Deferred compensation relating to grant of stock options	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1987	--	--	3,500,000	35,000
Issuance of Series B convertible preferred stock at $35.68 per share on August 14, 1987 (net of costs of issuance of $75,450)	--	--	--	--
Net loss	--	--	--	--
Amortization of deferred compensation	--	--	--	--

Balance at May 31, 1988	--	--	3,500,000	35,000
Issuance of common stock at $24.21 per share on June 7, 1988 (net of costs of issuance of $246,000)	--	--	413,020	4,130
Conversion of Series A convertible preferred stock to common stock on June 7, 1988	--	--	1,250,000	12,500
Conversion of Series B convertible preferred stock to common stock on June 7, 1988	--	--	1,003,165	10,032
Exercise of stock options at $2.00 per share	--	--	47,115	471
Issuance of common stock at $28.49 per share on March 6, 1989 (net of costs of issuance of $21,395)	--	--	175,525	1,755
Issuance of common stock at $28.49 per share on March 30, 1989 (net of costs of issuance of $10,697)	--	--	87,760	878
Sale of options at $28.29 per share to purchase common stock at $.20 per share on March 30, 1989 (net of costs of issuance of $4,162)	--	--	--	--
Net loss	--	--	--	--
Deferred compensation relating to grant of stock options	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1989	--	--	6,476,585	64,766
Net loss	--	--	--	--
Deferred compensation relating to grant of stock options	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1990	--	--	6,476,585	64,766
Net loss	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1991	--	--	6,476,585	64,766
Exercise of stock warrants at $5.60 per share	--	--	90,000	900
Net loss	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1992	--	--	6,566,585	65,666
Exercise of stock warrants at $7.14 per share	--	--	15,000	150
Issuance of common stock at $15.19 per share on April 19, 1993 (net of costs of issuance of $20,724)	--	--	374,370	3,744
Net loss	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1993	--	$ --	6,955,955	$ 69,560

See accompanying notes to financial statements.

	SERIES B CONVERTIBLE PREFERRED STOCK			DEFICI ACCUMULA
	NUMBER OF SHARES	AGGREGATE AMOUNT	ADDITIONAL PAID-IN CAPITAL	DURING T DEVELOPM STAGE
Issuance of common stock on August 27, 1985	--	$ --	(28,000)	
Issuance of Series A convertible preferred stock at $4.00 per share on August 27, 1985 (net of costs of issuance of $79,150)	--	--	670,850	
Net loss	--	--	--	(607,
Balance at May 31, 1986	--	--	642,850	(607,
Net loss	--	--	--	(2,429,
Deferred compensation relating to grant of stock options	--	--	2,340,000	
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1987	--	--	2,982,850	(3,037,
Issuance of Series B convertible preferred stock at $35.68 per share on August 14, 1987 (net of costs of issuance of $75,450)	200,633	200,633	6,882,502	
Net loss	--	--	--	(3,057,
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1988	200,633	200,633	9,865,352	(6,094,
Issuance of common stock at $24.21 per share on June 7, 1988 (net of costs of issuance of $246,000)	--	--	9,749,870	
Conversion of Series A convertible preferred stock to common stock on June 7, 1988	--	--	237,500	
Conversion of Series B convertible preferred stock to common stock on June 7, 1988	(200,633)	(200,633)	190,601	
Exercise of stock options at $2.00 per share	--	--	93,759	
Issuance of common stock at $28.49 per share on March 6, 1989 (net of costs of issuance of $21,395)	--	--	4,976,855	
Issuance of common stock at $28.49 per share on March 30, 1989 (net of costs of issuance of $10,697)	--	--	2,488,356	
Sale of options at $28.29 per share to purchase common stock at $.20 per share on March 30, 1989 (net of costs of issuance of $4,162)	--	--	7,443,118	
Net loss	--	--	--	(791,
Deferred compensation relating to grant of stock options	--	--	683,040	
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1989	--	--	35,728,451	(6,886,
Net loss	--	--	--	(3,490,
Deferred compensation relating to grant of stock options	--	--	699,163	
Amortization of deferred compensation	--	--	--	

Balance at May 31, 1990	--	--	36,427,614	(10,376,
Net loss	--	--	--	(5,579,
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1991	--	--	36,427,614	(15,956,
Exercise of stock warrants at $5.60 per share	--	--	503,100	
Net loss	--	--	--	(7,006,
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1992	--	--	36,930,714	(22,962,
Exercise of stock warrants at $7.14 per share	--	--	106,890	
Issuance of common stock at $15.19 per share on April 19, 1993 (net of costs of issuance of $20,724)	--	--	5,663,710	
Net loss	--	--	--	(8,066,
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1993	--	$ --	42,701,314	(31,029,

See accompanying notes to financial statements.

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

Statements of Shareholders' Equity (Deficit)

Three months ended August 31, 2002 (unaudited) and for the period from June 19, 1985 (inception) through August 31, 2002 (unaudited)

	PREFERRED STOCK		COMMON STOCK	
	NUMBER OF SHARES	AGGREGATE AMOUNT	NUMBER OF SHARES	AGGREGATE AMOUNT
Net loss	--	--	--	--
Issuance of common stock at $6.50 per share on May 26, 1994 (net of costs of issuance of $2,061,149)	--	--	2,500,000	25,000
Cancellation of stock options	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1994	--	--	9,455,955	94,560
Net loss	--	--	--	--
Issuance of common stock at $6.50 per share on June 20, 1994 (net of issuance costs of $172,500)	--	--	375,000	3,750

Exercise of stock options at $7.14 per share	--	--	10,000	100
Exercise of stock options at $2.00 per share	--	--	187,570	1,875
Cancellation of stock options	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1995	--	--	10,028,525	100,285
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	29,250
Issuance of common stock at $17.75 per share on September 11, 1995 (net of issuance costs of $423,238)	--	--	438,750	4,388
Exercise of stock options at $2.00 per share	--	--	182,380	1,824
Exercise of stock options at $6.38 per share	--	--	1,500	15
Exercise of stock options at $7.14 per share	--	--	10,000	100
Cancellation of stock options	--	--	--	--
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1996	--	--	13,586,155	135,862
Net loss	--	--	--	--
Exercise of stock options at $0.20 per share	--	--	263,285	2,633
Exercise of stock options at $2.00 per share	--	--	232,935	2,329
Exercise of stock options at $7.14 per share	--	--	10,000	100
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1997	--	--	14,092,375	140,924
Net loss	--	--	--	--
Exercise of stock options at $7.14 per share	--	--	5,000	50
Amortization of deferred compensation	--	--	--	--
Balance at May 31, 1998	--	--	14,097,375	140,974
Net loss	--	--	--	--
Non-cash compensation		--	--	--
Exercise of stock options at $7.14 per share	--	--	17,500	175
Exercise of stock warrants at $8.00 per share	--	--	125,000	1,250
Balance at May 31, 1999	--	--	14,239,875	142,399
Net loss	--	--	--	--
Non-cash compensation	--	--	--	--
Exercise of stock options at $13.38 per share	--	--	2,500	25
Balance at May 31, 2000	--	--	14,242,375	142,424
Net loss	--	--	--	--
Non-cash compensation	--	--	--	--
Exercise of stock options at $6.38 per share	--	--	6,000	60
Exercise of stock options at $10.81 per share	--	--	17,500	175
Balance at May 31, 2001	--	--	14,265,875	142,659
Net loss	--	--	--	--
Balance at May 31, 2002	--	--	14,265,875	142,659
Net loss	--	--	--	--

Balance at August 31, 2002	--	$ --	14,265,875	$ 142,659

See accompanying notes to financial statements.

	SERIES B CONVERTIBLE PREFERRED STOCK			DEFICI ACCUMULA DURING
	NUMBER OF SHARES	AGGREGATE AMOUNT	ADDITIONAL PAID-IN CAPITAL	DEVELOPM STAGE
Net loss	--	--	--	(7,363
Issuance of common stock at $6.50 per share on May 26, 1994 (net of costs of issuance of $2,061,149)	--	--	14,163,851	
Cancellation of stock options	--	--	(85,400)	
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1994	--	--	56,779,765	(38,393
Net loss	--	--	--	(7,439
Issuance of common stock at $6.50 per share on June 20, 1994 (net of issuance costs of $172,500)	--	--	2,261,250	
Exercise of stock options at $7.14 per share	--	--	71,300	
Exercise of stock options at $2.00 per share	--	--	373,264	
Cancellation of stock options	--	--	(106,750)	
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1995	--	--	59,378,829	(45,832
Net loss	--	--	--	(4,778
Issuance of common stock at $17.75 per share on August 9, 1995 (net of issuance costs of $3,565,125)	--	--	48,324,374	
Issuance of common stock at $17.75 per share on September 11, 1995 (net of issuance costs of $423,238)	--	--	7,360,187	
Exercise of stock options at $2.00 per share	--	--	362,937	
Exercise of stock options at $6.38 per share	--	--	9,555	
Exercise of stock options at $7.14 per share	--	--	71,300	
Cancellation of stock options	--	--	(80,062)	
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1996	--	--	115,427,120	(50,611
Net loss	--	--	--	(4,245
Exercise of stock options at $0.20 per share	--	--	50,025	
Exercise of stock options at $2.00 per share	--	--	463,540	
Exercise of stock options at $7.14 per share	--	--	71,300	
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1997	--	--	116,011,985	(54,856

Net loss	--	--	--	(5,883
Exercise of stock options at $7.14 per share	--	--	35,650	
Amortization of deferred compensation	--	--	--	
Balance at May 31, 1998	--	--	116,047,635	(60,740
Net loss	--	--	--	(7,416
Non-cash compensation	--	--	14,354	
Exercise of stock options at $7.14 per share	--	--	124,775	
Exercise of stock warrants at $8.00 per share	--	--	998,750	
Balance at May 31, 1999	--	--	117,185,514	(68,156
Net loss	--	--	--	(9,167
Non-cash compensation	--	--	57,112	
Exercise of stock options at $13.38 per share	--	--	33,425	
Balance at May 31, 2000	--	--	117,276,051	(77,323
Net loss	--	--	--	(10,174
Non-cash compensation	--	--	--	
Exercise of stock options at $6.38 per share	--	--	38,220	
Exercise of stock options at $10.81 per share	--	--	189,000	
Balance at May 31, 2001	--	--	117,503,271	(87,498
Net loss	--	--	--	(10,717
Balance at May 31, 2002	--	--	117,503,271	(98,215
Net loss	--	--	--	(2,877
Balance at August 31, 2002	--	$ --	$117,503,271	$(101,093

See accompanying notes to financial statements.

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

Statements of Cash Flows

Three months ended August 31, 2002 and 2001 (unaudited)
and the cumulative period from June 19, 1985
(inception) through August 31, 2002 (unaudited)

	THREE MONTHS ENDED AUGUST	
	2002	2001

Cash flows from operating activities:		
Net loss	$ (2,877,589)	(3,190,
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	211,303	215,
Non-cash compensation	--	
Loss on sale of equipment	--	
Changes in assets and liabilities:		
Prepaid expenses	52,622	108,
Other current assets	(5,002)	309,
Other assets	--	
Accounts payable	(505,844)	(696,
Accrued expenses	90,490	308,
Accrued compensation and benefits	(87,882)	380,
Other liabilities	(1,098)	3,
Net cash used in operating activities	(3,123,000)	(2,561,
Cash flows from investing activities:		
Purchase of property, plant, equipment, and capitalized engineering costs	(52,875)	(62,
Proceeds from sale of land and equipment	--	
Proceeds from matured marketable securities	--	5,679,
Proceeds from sale of marketable securities	--	
Purchase of marketable securities	(1,957,250)	(4,999,
Net cash provided by (used in) investing activities	(2,010,125)	616,
Cash flows from financing activities:		
Proceeds from issuance of common stock	--	
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	--	
Net (decrease) increase in cash	(5,133,125)	(1,944,
Cash at beginning of period	17,668,687	6,435,
Cash at end of period	$ 12,535,562	4,491,

See accompanying notes to financial statements.

(a company in the development stage)

Notes to Financial Statements

August 31, 2002

(1) BASIS OF PRESENTATION

The interim financial statements presented are unaudited but, in the opinion of management, have been prepared in conformity with accounting principles generally accepted in the United States of America applied on a basis consistent with those of the annual financial statements. Such interim financial statements reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. The results of operations for the interim period presented are not necessarily indicative of the results to be expected for the year ending May 31, 2003. The interim financial statements should be read in connection with the audited financial statements for the year ended May 31, 2002.

(2) COMPUTATION OF NET LOSS PER SHARE

Basic earnings per share is based on the weighted average number of shares outstanding and excludes the dilutive effect of unexercised common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of unexercised common stock equivalents. Because the Company reported a net loss for all periods presented, basic and diluted per share amounts are the same.

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

Since Northfield's incorporation in 1985, we have devoted substantially all of our efforts and resources to the research, development and clinical testing of our potential product, PolyHeme(TM). We have incurred operating losses during each year of our operations since inception and expect to incur substantial additional operating losses for the next several years. From Northfield's inception through August 31, 2002, we have incurred operating losses totaling $101,093,000.

The Food and Drug Administration ("FDA") in November 2001 issued a refusal to file letter with respect to our Biologics License Application for PolyHeme. Since that time, we have had numerous meetings and follow-up discussions with the FDA and are attempting to reach a consensus with the FDA in order to move forward as quickly as possible toward regulatory approval for PolyHeme. The FDA regulatory process, however, is subject to significant risks and uncertainties. The nature, timing and costs of the efforts necessary for us to obtain regulatory approval for PolyHeme, and the timing of any future revenues from the commercial sale of PolyHeme, cannot therefore be reasonably estimated at this time because of the current regulatory status of PolyHeme and the wide range of possible outcomes arising from our discussion with the FDA.

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.

Northfield is planning to expand its potential product indications through additional clinical trials. Working in the pre-hospital setting, the planned trials would complement our existing trauma data while opening the ambulance market, ground and air. The details of the planned studies have not been finalized and are subject to FDA approval. The timing of the trials will be dependent on our ability to secure the FDA's approval for the studies.

We anticipate that research and development expenses will increase during the foreseeable future. These expected increases are attributable to additional clinical trials, monitoring and reporting the results of these trials and continuing process development associated with improving our manufacturing capacity to permit commercial-scale production of PolyHeme. We expect that general and administrative expenses will increase over the foreseeable future as a result of increased costs relating to the expansion of our organization in support of anticipated commercial operations.

RESULTS OF OPERATIONS

We reported no revenues for either of the three-month periods ended August 31, 2002 or 2001. From Northfield's inception through August 31, 2002, 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, 2002 totaled $2,955,000, a decrease of $537,000 from the $3,492,000 reported in the first quarter of fiscal 2002. Measured on a percentage basis, operating expenses in the first quarter of fiscal 2003 decreased by 15.4%. The difference was due to lower costs for clinical trials and compensation partially offset by higher costs for professional services incurred in connection with the defense of a proxy contest relating to our 2002 annual meeting of shareholders.

Research and development expenses for the first quarter of fiscal 2003 totaled $2,026,000, a decrease of $623,000, or 23.5%, from the $2,649,000 reported in the first quarter of fiscal 2002. Lower expenses were recognized during the first quarter of fiscal 2003 related to reductions in costs associated with our clinical trials and decreases in compensation expense.

We anticipate that research and development expenses will increase significantly in the third and fourth quarter of fiscal 2003. Additional costs are being planned for multi-center clinical trials in support of expanded product indications, third party clinical monitoring, biostatistical analysis, report preparation and continued expansion of our manufacturing organization. Northfield is conducting a national search for a medical director to directly oversee the planned clinical trials.

General and administrative expenses in the first quarter of fiscal 2003 totaled $929,000 compared to expenses of $843,000 in the first quarter of 2002, representing an increase of

$86,000, or 10.2%. This increase was due to increased professional service fees related to our contested proxy and the increased cost of directors and officers insurance which was partially offset by decreased compensation costs.

With the exception of enhancing the Company's investor relation's capabilities, Northfield is not planning any new general and administrative programs over the balance of the fiscal year. Securing regulatory approval for PolyHeme(TM) is the highest priority item. Once there is greater clarity on the probability and timing of approval, general and administrative expenses are expected to increase to support the commercialization of our product.

INTEREST INCOME

Interest income in the first quarter of fiscal 2003 totaled $77,000, or a $224,000 decrease from the $301,000 in interest income reported in the first quarter of fiscal 2002. Short term available interest rates declined by in excess of 400 basis points from the first quarter of fiscal 2002 which along with lower available investment balances accounted for the decrease in interest income. In the absence of a major cash infusion, interest income will continue to be significantly below prior year levels.

NET LOSS

The net loss for the first quarter ended August 31, 2002 was $2,878,000, or $.20 per basic share, compared to a net loss of $3,191,000, or $.22 per basic share, for the first quarter ended

August 31, 2001. The decrease in the loss per basic share is primarily the result of decreased compensation and reduced clinical trial costs, partially offset by lower interest income.

LIQUIDITY AND CAPITAL RESOURCES

From Northfield's inception through August 31, 2002, we have used cash for operating activities and for the purchase of property, plant, equipment and engineering services in the amount of $100,775,000. For the three-month periods ended August 31, 2002 and 2001, these cash expenditures totaled $3,176,000 and $ 2,624,000, respectively. The increased cash outlay for the first quarter of fiscal 2003 compared to the prior year period, in spite of decreased losses, is the result of higher accrued expense balances in the prior year period. Those increased liabilities in the prior year represented only a deferral of cash usage from the first quarter of fiscal 2002 to the second quarter of fiscal 2002.

We have financed our research and development and other activities to date primarily through the public and private sale of equity securities and, to a more limited extent, through the licensing of product rights. As of August 31, 2002, we had cash and marketable securities totaling $15,213,000.

We believe our existing capital resources will be adequate to satisfy our operating capital requirements and maintain our existing pilot manufacturing plant and office facilities for approximately the next 12 to 15 months. Thereafter and to fund additional clinical trials, we are

likely to require substantial additional capital to continue our operations.

Northfield is actively considering raising additional equity capital to fund its continued operations, including the proposed additional clinical trials described above. We may issue additional equity or debt securities to the public or in private placement transactions. We may also enter into collaborative arrangements with strategic partners, which could provide us with additional funding or absorb expenses we would otherwise be required to pay. Any one or a combination of these sources may be utilized to raise the required funding. Business or market conditions may not be favorable, which could delay or prevent us from raising additional capital. Our failure to obtain additional capital would likely prevent us from commercializing our product.

We are currently unable to fund the construction of a large-scale greenfield manufacturing facility, which is estimated to cost approximately $50 million, without raising substantial additional capital. Currently, we have manufacturing capacity of approximately 10,000 units. Initial engineering on the leased space adjacent to our existing manufacturing facility is completed. This engineering indicates an additional capacity of 75,000 units could be developed in approximately 16 to 20 months at a cost of $28 to $32 million. Like a large-scale greenfield manufacturing facility, significant additional funding will be required before the smaller scale expansion facility could be completed. Northfield has not yet committed to the build-out. We view the smaller facility as financially prudent yet large enough for commercial viability.

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

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. The Company believes the following critical accounting policy affects its more significant judgments and estimates used in the preparation of its consolidated financial statements.

NET DEFERRED TAX ASSETS VALUATION

The Company records its net deferred tax assets in the amount that it expects to realize based on projected future taxable income. In assessing the appropriateness of its valuation, assumptions and estimates are required such as the Company's ability to generate future taxable income. In the event that the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. As of August 31, 2002, the Company has recorded a 100 percent valuation allowance against its deferred tax asset.

CONTRACTUAL OBLIGATIONS

The following table reflects a summary of the Company's contractual cash obligations as of August 31, 2002:

Contractual Cash Obligations	Total	Less Than One Year	1-3 Years	4
Lease Obligations(1)	$2,158,722	840,157	1,159,096	
Other Obligations	1,479,961	867,313	612,648	
Total Contractual Cash Obligations	$3,638,683	1,707,470	1,771,744	

(1) Northfield's Evanston lease agreement is cancellable with six months notice combined with a termination payment equal to six months base rent and six months of additional rental payments. If the lease were terminated today the termination payment would be $315,530.

RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. FASB Statement No. 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The enterprise also is to record a corresponding increase to the carrying amount of the related long-lived asset (i.e., the associated asset retirement costs) and to depreciate that cost over the life of the asset. The liability is changed at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the initial fair value measurement. Adoption of FASB Statement No. 143 is required for fiscal years beginning after June 15, 2002. Upon adoption of this provision we expect to record an additional liability of approximately $138,000.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The marketable security investments of the Company have been made for investment (as opposed to trading) purposes. Interest rate risk with respect to the investments of the Company is not significant as all such investments are in U.S. dollar cash equivalents and short-term investments (with maturities of less than 12 months), which are by their nature less sensitive to interest rate movements. The investments of the Company are generally made in U.S. government and federal agency bonds, high-grade commercial paper, corporate bonds and certificates of deposit. A one percentage point decrease or increase on an investment balance of $15.2 million would change annual interest income by $152,000.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures and internal

controls designed to ensure that information required to be disclosed in the Company's filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. The Company's principal executive and financial officers have evaluated its disclosure controls and procedures within 90 days prior to the filing of this Quarterly Report on Form 10-Q and have determined that such disclosure controls and procedures are effective.

Subsequent to the Company's evaluation, there were no significant changes in internal controls or other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 6. Exhibits

a) Exhibit 15 - Acknowledgment of Independent Certified Public Accountants

Exhibit 99.1 - Certification of Chief Executive Officer

Exhibit 99.2 - Certification of Chief Financial Officer

b) Report on Form 8-K:

The Company filed a report dated August 9, 2002, in which Steven A. Gould, M.D., Chief Executive Officer and Jack J. Kogut, Chief Financial Officer of Northfield Laboratories Inc., submitted certifications to the Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this October 11, 2002.

NORTHFIELD LABORATORIES INC.

By: /s/ STEVEN A. GOULD, M.D.

Steven A. Gould, M.D.
Chairman of the Board and
Chief Executive Officer

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, 2002.

SIGNATURE	TITLE
/s/ STEVEN A. GOULD, M.D. Steven A. Gould, M.D.	Chairman of the Board and Chief Executive Officer (principal executive officer)
/s/ JACK J. KOGUT	Vice President - Finance, Secretary and

Jack J. Kogut	Treasurer (principal financial and accounting officer)

CERTIFICATION

I, Steven A. Gould, M.D., Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Northfield Laboratories Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material

weaknesses.

Date: October 15, 2002

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

Steven A. Gould, M.D.
Chief Executive Officer

CERTIFICATION

I, Jack J. Kogut, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Northfield Laboratories Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, is made known to us by others, particularly during the period in which this quarterly report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal

controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 15, 2002

/s/ Jack J. Kogut

Jack J. Kogut
Chief Financial Officer