NORTHFIELD LABORATORIES INC /DE/
Form 10-Q
April 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED February 28, 2007

OR

o **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 (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 þ No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 under the Exchange Act) Yes o No þ

As of February 28, 2007, Registrant had 26,914,824 shares of common stock outstanding

TABLE OF CONTENTS

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, 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 for our fiscal year ended May 31, 2006, and our Quarterly Report on Form 10-Q for our fiscal quarter ended November 30, 2006, each of which is filed with the Securities and Exchange Commission, and those matters discussed under Legal Proceedings in this Quarterly Report. 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 and Shareholders
Northfield Laboratories Inc.:

We have reviewed the balance sheet of Northfield Laboratories Inc. (a company in the development stage) as of February 28, 2007, the related statements of operations for the three-month periods ended February 28, 2007 and February 28, 2006, and the statements of operations and cash flows for the nine-month periods ended February 28, 2007 and February 28, 2006 and for the period from June 19, 1985 (inception) through February 28, 2007. We have also reviewed the statements of shareholders equity (deficit) for the nine-month period ended February 28, 2007 and for the period from June 19, 1985 (inception) through February 28, 2007. 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 the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of Northfield Laboratories Inc. as of May 31, 2006, 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, 2006 (not presented herein); and in our report dated August 11, 2006, 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, 2006 and in the accompanying statements of operations, cash flows and shareholders equity (deficit) for the period from June 19, 1985 (inception) through May 31, 2006 is fairly stated, in all material respects, in relation to the statements from which it has been derived.

(signed) KPMG LLP

Chicago, IL

April 9, 2007

Part I
FINANCIAL INFORMATION

Item 1. Financial Statements.

NORTHFIELD LABORATORIES INC.
(a company in the development stage)
Balance Sheets
February 28, 2007 and May 31, 2006

	February 28, 2007 (unaudited)	May 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 26,116,066	39,304,602
Restricted cash	223,454	926,492
Marketable securities	20,779,220	33,679,022
Prepaid expenses	226,926	813,104
Total current assets	47,345,666	74,723,220
Property, plant, and equipment	21,682,216	15,654,049
Accumulated depreciation	(13,240,063)	(14,575,118)
Net property, plant, and equipment	8,442,153	1,078,931
Other assets	19,550	68,941
	$ 55,807,369	75,871,092
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 3,330,236	4,481,804
Accrued expenses	162,105	134,006
Accrued compensation and benefits	741,475	742,038
Government grant liability	223,454	926,492
Other	5,198	249,580
Total liabilities	4,462,468	6,533,920
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 26,916,541 at February 28, 2007 and 26,777,655 at May 31, 2006	269,165	267,777
Additional paid-in capital	244,514,954	241,240,276
Deficit accumulated during the development stage	(193,413,825)	(172,136,429)
Deferred compensation		(9,059)

		51,370,294	69,362,565
Less cost of common shares in treasury; 1,717 shares and 1,717 shares, respectively		(25,393)	(25,393)
Total shareholders equity		51,344,901	69,337,172
	$	55,807,369	75,871,092

See accompanying notes to financial statements and accountants review report.

NORTHFIELD LABORATORIES INC.
(a company in the development stage)
Statements of Operations
Three and nine months ended February 28, 2007 and February 28, 2006 and for the period from June 19, 1985 (inception) through February 28, 2007

	Three months ended February 28		Nine months ended February 28,		Cumulative from June 19, 1985 through February 28, 2007
	2007 (unaudited)	**2006** (unaudited)	**2007** (unaudited)	**2006** (unaudited)	(unaudited)
Revenues license income	$				3,000,000
Costs and expenses:					
Research and development	4,476,365	5,786,424	15,927,707	16,453,600	163,708,905
General and administrative	2,269,980	1,453,876	7,534,628	4,302,696	62,810,528
	6,746,345	7,240,300	23,462,335	20,756,296	226,519,433
Other income and expense:					
Interest income	634,577	845,342	2,184,939	2,311,500	30,263,763
Interest expense					83,234
	$ 634,577	845,342	2,184,939	2,311,500	30,180,529
Net loss before cumulative effect of change in accounting principle	(6,111,768)	(6,394,958)	(21,277,396)	(18,444,796)	(193,338,904)
Cumulative effect of change in accounting principle					74,921
Net loss	$ (6,111,768)	(6,394,958)	(21,277,396)	(18,444,796)	(193,413,825)
Net loss per share basic and diluted	$ (0.23)	(0.24)	(0.79)	(0.69)	(17.14)
Shares used in calculation of per share data basic and diluted	26,911,357	26,769,380	26,877,075	26,764,146	11,281,878

See accompanying notes to financial statements and accountants review report.

NORTHFIELD LABORATORIES INC.
(a company in the development stage)
Statements of Shareholders Equity (Deficit)
Nine months ended February 28, 2007 and the cumulative period
from June 19, 1985 (inception) through February 28, 2007

Preferred stock Number of shares	Aggregate amount	Common stock Number of shares	Aggregate amount	Series A convertible preferred stock Number of shares	Aggregate amount	Series B convertible preferred stock Number of shares	Aggregate amount	Additional paid-in capital	Deficit accumulated during the development stage	Deferred compensation	Treasury shares
ck 7,	$	3,500,000	$ 35,000		$		$	$ (28,000)	$	$	$
00											
				250,000	250,000			670,850	(607,688)		
36		3,500,000	35,000	250,000	250,000			642,850	(607,688) (2,429,953)		
on											
k								2,340,000		(2,340,000)	
n											
on										720,000	
37		3,500,000	35,000	250,000	250,000	200,633	200,633	2,982,850 6,882,502	(3,037,641)	(1,620,000)	

								(3,057,254)	
n									
on									566,136
38	3,500,000	35,000	250,000	250,000	200,633	200,633	9,865,352	(6,094,895)	(1,053,864)
ck r									
s									
of	413,020	4,130					9,749,870		
of									
ck									
	1,250,000	12,500	(250,000)	(250,000)			237,500		
of									
ck									
	1,003,165	10,032			(200,633)	(200,633)	190,601		
s									
	47,115	471					93,759		
ck r									
89									
of	175,525	1,755					4,976,855		

ck r						
	87,760	878		2,488,356		
ck						
				7,443,118	(791,206)	
on						
k n				683,040		(683,040)
on						800,729
39	6,476,585	64,766		35,728,451	(6,886,101) (3,490,394)	(936,175)
on						
k n				699,163		(699,163)
on						546,278
90	6,476,585	64,766		36,427,614	(10,376,495) (5,579,872)	(1,089,060)
n on						435,296

91	6,476,585	64,766		36,427,614	(15,956,367)	(653,764)
nts						
	90,000	900		503,100		
					(7,006,495)	
n						
on						254,025
92	6,566,585	65,666		36,930,714	(22,962,862)	(399,739)
nts						
	15,000	150		106,890		
ck r						
93						
of	374,370	3,744		5,663,710		
					(8,066,609)	
n						
on						254,025
93	6,955,955	69,560		42,701,314	(31,029,471)	(145,714)
					(7,363,810)	
ck						
94						
of	2,500,000	25,000		14,163,851		
				(85,400)		85,400
n						
on						267
94	9,455,955	94,560		56,779,765	(38,393,281)	(60,047)
					(7,439,013)	

ck							
94							
ts							
)	375,000	3,750		2,261,250			
s							
	10,000	100		71,300			
s							
	187,570	1,875		373,264			
				(106,750)		106,750	
n							
on						(67,892)	
95	$ 10,028,525	$ 100,285	$	$	$ 59,378,829	$ (45,832,294)	$ (21,189)

See accompanying notes to financial statements and accountants review report.

NORTHFIELD LABORATORIES INC.
(a company in the development stage)
Statements of Shareholders Equity (Deficit)
Nine months ended February 28, 2007 and the cumulative period
from June 19, 1985 (inception) through February 28, 2007

	Preferred stock		Common stock		Series A convertible preferred stock		Series B convertible preferred stock			Deficit accumulated			Total share-
	Number of shares	Aggregate amount	Number of shares	Aggregate amount	Number of shares	Aggregate amount	Number of shares	Aggregate amount	Additional paid-in capital	during the development stage	Deferred compen-sation	Treasury shares	holders equity (deficit)
Net loss	$	$		$		$		$	$	(4,778,875)	$		$ (4,778,875)
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					48,324,374				48,353,624
Issuance of common stock at $17.75 per share on September 11, 1995 (net of issuance costs of $423,23)			438,750	4,388					7,360,187				7,364,575
Exercise of stock options at $2.00 per share			182,380	1,824					362,937				364,761
Exercise of stock options at $6.38 per share			1,500	15					9,555				9,570
Exercise of stock options at $7.14 per share			10,000	100					71,300				71,400
Cancellation of stock options									(80,062)		80,062		
Amortization of deferred compensation											(62,726)		(62,726)
			13,586,155	135,862					115,427,120	(50,611,169)	(3,853)		64,947,960

Balance at May 31, 1996						
Net loss				(4,245,693)		(4,245,693)
Exercise of stock options at $0.20 per share	263,285	2,633	50,025			52,658
Exercise of stock options at $2.00 per share	232,935	2,329	463,540			465,869
Exercise of stock options at $7.14 per share	10,000	100	71,300			71,400
Amortization of deferred compensation					2,569	2,569
Balance at May 31, 1997	14,092,375	140,924	116,011,985	(54,856,862)	(1,284)	61,294,763
Net loss				(5,883,378)		(5,883,378)
Exercise of stock options at $7.14 per share	5,000	50	35,650			35,700
Amortization of deferred compensation					1,284	1,284
Balance at May 31, 1998	14,097,375	140,974	116,047,635	(60,740,240)		55,448,369
Net loss				(7,416,333)		(7,416,333)
Non-cash compensation				14,354		14,354
Exercise of stock options at $7.14 per share	17,500	175	124,775			124,950
Exercise of stock warrants at $8.00 per share	125,000	1,250	998,750			1,000,000
Balance at May 31, 1999	14,239,875	142,399	117,185,514	(68,156,573)		49,171,340
Net loss				(9,167,070)		(9,167,070)
Non-cash compensation			57,112			57,112
Exercise of stock options at $13.38 per share	2,500	25	33,425			33,450
Balance at May 31, 2000	14,242,375	142,424	117,276,051	(77,323,643)		40,094,832

Net loss				(10,174,609)		(10,174,609)
Non-cash compensation						
Exercise of stock options at $6.38 per share	6,000	60	38,220			38,280
Exercise of stock options at $10.81 per share	17,500	175	189,000			189,175
Balance at May 31, 2001	14,265,875	142,659	117,503,271	(87,498,252)		30,147,678
Net loss				(10,717,360)		(10,717,360)
Balance at May 31, 2002	14,265,875	142,659	117,503,271	(98,215,612)		19,430,318
Net loss				(12,250,145)		(12,250,145)
Balance at May 31, 2003	14,265,875	142,659	117,503,271	(110,465,757)		7,180,173
Issuance of common stock at $5.60 per share on July 28, 2003 net of costs of issuance of $909,229)	1,892,857	18,928	9,671,843			9,690,771
Issuance of common stock to directors at $6.08 per share on October 30, 2003	12,335	123	74,877			75,000
Deferred compensation related to stock grants	25,500	255	190,995		(191,250)	
Amortization of deferred compensation					35,630	35,630
Issuance of common stock at $5.80 per share on January 29, 2004 (net of costs of issuance of $1,126,104)	2,585,965	25,860	13,846,633			13,872,493

Issuance of common stock at $5.80 per share on February 18, 2004 (net of costs of issuance of $116,423)	237,008	2,370	1,255,853				1,258,223
Issuance of common stock at $5.80 per share on April 15, 2004 (net of costs of issuance of $192,242)	409,483	4,095	2,178,664				2,182,759
Issuance of common stock at $12.00 per share on May 18, 2004 (net of costs of issuance of $1,716,831.36)	1,954,416	19,544	21,716,616				21,736,160
Exercise of stock options at $6.38 per share	15,000	150	95,550				95,700
Net loss				(14,573,798)			(14,573,798)
Balance at May 31, 2004	21,398,439	213,984	166,534,302	(125,039,555)	(155,620)		41,553,111
Deferred compensation related to stock grants	5,500	55	71,055		(71,110)		
Amortization of deferred compensation					122,121		122,121
Exercise of stock options between $5.08 and $14.17 per share	167,875	1,679	1,739,585				1,741,264
Cost of shares in treasury, 1,717 shares						(25,393)	(25,393)
Issuance of common stock to directors at $12.66 per	5,925	59	74,941				75,000

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)	5,175,000	51,750	72,577,561				72,629,311
Net loss				(20,321,456)			(20,321,456)
Balance at May 31, 2005	26,752,73	267,527	240,997,444	(145,361,011)	(104,609)	(25,393)	95,773,958
Amortization of deferred compensation					95,550		95,550
Exercise of stock options at $7.13 and $10.66 per share	2,875	29	29,295				29,324
Issuance of common stock to directors at $13.05 per share on September 29, 2005	5,750	57	74,943				75,000
Issuance of common stock to director at $13.21 per share on October 3, 2005	1,135	12	14,988				15,000
Issuance of common stock to director at $10.67 per share on February 24, 2006	1,406	14	14,986				15,000
Exercise of stock options at $10.66, $5.15 and $11.09 per share	8,000	80	65,075				65,155
	2,750	28	26,640				26,668

Exercise of stock options at $10.66 and $7.13 per share							
Exercise of stock options at $5.15 and $7.13 per share	3,000	30	16,905				16,935
Net loss				(26,775,418)			(26,775,418)
Balance at May 31, 2006	26,777,655	267,777	241,240,276	(172,136,429)	(9,059)	(25,393)	69,337,172
Eliminate remaining deferred compensation (unaudited)			(9,059)		9,059		
Exercise of stock options at $5.15 and $7.13 per share (unaudited)	2,750	28	17,105				17,133
Exercise of stock options at $7.13 per share (unaudited)	750	7	5,348				5,355
Issuance of common stock to directors at $13.03 per share on September 20, 2006 (unaudited)	6,912	69	89,931				90,000
Exercise of stock options at $11.44 per share (unaudited)	10,000	100	114,300				114,400
Exercise of stock options at $5.15, $11.92 and $13.21 per share (unaudited)	3,125	31	24,646				24,677
Exercise of stock options at $5.08 and $6.08 per share (unaudited)	15,000	150	81,050				81,200
	3,000	30	15,421				15,451

Exercise of stock options at $5.15 per share (unaudited)							
Exercise of stock options at $11.92 per share (unaudited)	375	4		4,467			4,471
Exercise of warrants at $6.88 per share (unaudited)	96,974	969		666,212			667,181
Share-based compensation (unaudited)				2,265,257			2,265,257
Net loss (unaudited)					(21,277,396)		(21,277,396)
Balance at February 28, 2007 (unaudited)	$ 26,916,541	$ 269,165	$	$ 244,514,954	$ (193,413,825)	$ (25,393)	$ 51,344,901

See accompanying notes to financial statements and accountants review report.

NORTHFIELD LABORATORIES INC.
(a company in the development stage)
Statements of Cash Flows
Nine months ended February 28, 2007 and February 28, 2006
and the cumulative period from June 19, 1985
(inception) through February 28, 2007

	Nine months ended February 28,		Cumulative from June 19, 1985 through February 28,
	2007 (unaudited)	**2006** (unaudited)	**2007** (unaudited)
Cash flows from operating activities:			
Net loss	$ (21,277,396)	(18,444,796)	(193,413,825)
Adjustments to reconcile net loss to net cash used in operating activities:			
Marketable security amortization	(941,208)	(1,301,084)	(3,239,411)
Depreciation and amortization	378,491	204,220	19,323,262
Stock based compensation	2,355,257	191,588	6,416,281
Loss of sale of equipment			66,359
Changes in assets and liabilities:			
Restricted cash	703,038		(223,454)
Prepaid expenses	586,178	545,654	(436,137)
Other current assets		139,808	
Other assets	49,391	328	(1,840,460)
Accounts payable	(1,151,568)	(128,953)	3,330,236
Accrued expenses	28,099	(30,120)	162,105
Government grant liability	(703,038)		223,454
Accrued compensation and benefits	(563)	80,161	741,475
Other liabilities	(244,382)	(12,342)	5,198
Net cash used in operating activities	(20,217,701)	(18,755,536)	(168,884,917)
Cash flows from investing activities:			
Purchase of property, plant, equipment, and capitalized engineering costs	(7,741,713)	(484,575)	(27,690,026)
Proceeds from sale of land and equipment			1,863,023
Proceeds from matured marketable securities	75,000,000	146,794,000	692,646,352
Proceeds from sale of marketable securities			7,141,656
Purchase of marketable securities	(61,158,990)	(84,972,708)	(717,333,597)
Net cash provided by (used in) investing activities	6,099,297	61,336,717	(43,372,592)

Cash flows from financing activities:			
Proceeds from issuance of common stock	929,868	121,147	237,055,003
Payment of common stock issuance costs			(14,128,531)
Proceeds from issuance of preferred stock			6,644,953
Proceeds from sale of stock options to purchase common shares			7,443,118
Proceeds from issuance of notes payable			1,500,000
Repayment of notes payable			(140,968)
Net cash provided by financing activities	929,868	121,147	238,373,575
Net increase (decrease) in cash	(13,188,536)	42,702,328	26,116,066
Cash at beginning of period	39,304,602	6,800,405	
Cash at end of period	$ 26,116,066	49,502,733	26,116,066
Supplemental Schedule of Noncash Financing Activities:			
Exercise of stock option, 5,000 shares in exchange for 1,717 treasury shares.	$		25,393

See accompanying notes to financial statements and accountants review report.

Northfield Laboratories Inc.
(a company in the development stage)
Notes to the Financial Statements
February 28, 2007
(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, 2006.

(2) RECLASSIFICATIONS

Certain amounts included in the previous quarter and year-end financial statements have been reclassified to conform to the nine months ended February 28, 2007 financial statement presentation.

(3) 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.

(4) COMPUTATION OF NET LOSS PER SHARE

Basic earnings per share is based on the weighted average number of shares outstanding and exclude the dilutive effect of unexercised common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and include 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 February 28, 2007, we had 1,566,957 options and 115,418 warrants that were excluded from the net loss per share calculation because their inclusion would have been anti-dilutive.

(5) SHARE-BASED COMPENSATION

Our Nonqualified Stock Option Plan for Outside Directors (the Directors Plan) lapsed on May 31, 2004. Following the termination of the plan, all options outstanding prior to plan termination may be exercised in accordance with their terms. As of February 28, 2007, options to purchase a total of 60,000 shares of our common stock at prices between $4.09 and $13.38 per share were outstanding. These options expire between 2008 and 2012, ten years after the date of grant.

With an effective date of October 1, 1996, we established the Northfield Laboratories Inc. 1996 Stock Option Plan (the 1996 Option Plan). This plan provides for the granting of stock options to our directors, officers, key employees, and consultants. Stock options to purchase a total of 500,000 shares of common stock are available under the 1996 Option Plan. During the quarters ended February 28, 2007 and 2006, we did not grant any options from this plan. As of February 28, 2007, options to purchase a total of 164,500 shares of our common stock at prices between $9.56 and $15.41 were outstanding. These options expire between 2007 and 2008, ten years after the date of grant.

With an effective date of June 1, 1999, we established the Northfield Laboratories Inc. 1999 Stock Option Plan (the 1999 Option Plan). This plan provides for the granting of stock options to our directors, officers, key employees, and consultants. Stock options to purchase a total of

500,000 shares of common stock are available under the 1999 Option Plan. During the quarters ended February 28, 2007 and February 28, 2006, we did not grant any options to purchase shares of common stock. As of February 28, 2007, options to purchase a total of 283,375 shares of our common stock at prices between $3.62 and $14.17 per share were outstanding. These options expire in 2013, ten years after the date of grant.

With an effective date of January 1, 2003, we established the New Employee Stock Option Plan (the New Employee Plan). This plan provides for the granting of stock options to our new employees. Stock options to purchase a total of 350,000 shares are available under the New Employee Plan. During the quarter ended February 28, 2007, we granted no options to purchase shares of common stock under this plan. During the quarter ended February 28, 2006, we granted 5,000 options to purchase shares of common stock at a price of $13.42 per share. As of February 28, 2007, options to purchase a total of 105,000 shares of our common stock at prices between $3.62 and $18.55 per share were outstanding. These options expire between 2014 and 2016, ten years after the date of grant.

With an effective date of September 17, 2003, we established and stockholders approved the 2003 Equity Compensation Plan with 750,000 available share awards. This plan provides for the granting of stock, stock options and various other types of equity compensation to our employees, non-employee directors and consultants. On September 29, 2005, the number of available share awards was increased to 2,250,000 by stockholder approval. During the quarter ended February 28, 2007, we did not grant any options to purchase shares of common stock. During the quarter ended February 28, 2006, we granted 235,000 options to purchase shares of common stock at prices between $10.67 and $12.76. At February 28, 2007, options to purchase a total of 1,069,500 shares of our common stock at prices between $5.94 and $18.55 were outstanding. These options expire between 2014 and 2016, ten years after the date of grant.

The service period for option plans is generally four years, with shares vesting at a rate of 25% each year.

Restricted stock awards are granted to key members of our management team. Restricted stock awards granted to employees, beginning with shares granted in 2003, vest 50% on their first anniversary and in their entirety on the second anniversary of the award. At February 28, 2007, there were no shares of unvested restricted stock. All restricted stock vested in the second quarter of 2007. No restricted shares were granted in the nine months ended February 28, 2007 and 2,750 shares vested during the nine months ended February 28, 2007. We measure the fair value of restricted stock based upon the market price of the underlying common stock at the date of grant. At February 28, 2007 and February 28, 2006, the amount of related deferred compensation reflected in shareholders equity was $0 and $18,021, respectively. The amortization of deferred compensation for the three months ended February 28, 2007 and February 28, 2006 was $94 and $20,818, respectively. The amortization of deferred compensation for the nine months ended February 28, 2007 and February 28, 2006 was $9,059 and $86,588, respectively.

We issue shares from authorized but un-issued common shares upon share option exercises and restricted stock grants.

Effective June 1, 2006, we adopted Financial Accounting Standards Board (FASB) Statement No. 123 (revised), Share-Based Payment (SFAS 123R). Among its provisions, SFAS 123R requires us to recognize compensation expense for equity awards over the vesting period based on their grant-date fair value. Prior to the adoption of SFAS 123R, we utilized the intrinsic-value based method of accounting under APB Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations, and adopted the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). Under the intrinsic-value based method of accounting, compensation expense for stock options granted to our employees was measured as the excess of the fair value of our common stock at the grant date over the amount the employee must pay for the stock.

We adopted SFAS 123R in the first quarter of fiscal 2007 using the modified prospective approach. Under this transition method, the measurement and our method of amortization of costs for share-based payments granted prior to, but not vested as of June 1, 2006, would be based on the same estimate of the grant-date fair value and the same amortization method that was previously used in our SFAS 123 pro forma disclosure. Results for prior periods have not been restated as provided for under the modified prospective approach. For equity awards granted after the date of adoption, we will amortize share-based compensation expense on a straight-line basis over the vesting term.

Compensation expense is recognized only for share-based payments expected to vest. We estimate forfeitures at the date of grant based on our historical experience and future expectations. Prior to the adoption of SFAS 123R, the effect of forfeitures on the pro forma expense amounts was recognized based on actual forfeitures.

We do not recognize a tax benefit related to share based compensation due to the historical net operating loss and related valuation allowance.

The effect of adopting SFAS 123R and the impact of the expense on basic earnings per share for the three and nine months ended February 28, 2007 was $.02 and $.08, respectively. The charge associated with share-based compensation expense recognized in the Statements of Operations in the three and nine months ended February 28, 2007 was $553,756 and $2,256,000.

The following table shows the effect on net loss for three and nine months ended February 28, 2006 had compensation expense been recognized based upon the estimated fair value on the grant date of awards, in accordance with SFAS 123, as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure .

	Three months Ended February 28, 2006	Nine months Ended February 28, 2006
Net loss as reported	$ (6,394,958)	$ (18,444,796)
Add: Stock based compensation expense included in statements of operations	35,818	191,588
Deduct: Total stock based compensation expense determined under the fair value method for all awards	(604,259)	(2,304,112)
Pro forma net loss	$ (6,963,399)	$ (20,557,320)
Basic and diluted earnings per share:		
As reported	(.24)	(.69)
Pro forma	(.26)	(.77)

As of February 28, 2007, there was approximately $4,381,304 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the incentive plans. That cost is expected to be recognized over a weighted-average period of 1.98 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The table below outlines the weighted average assumptions for options granted during the three and nine months ended February 28, 2007 and February 28, 2006.

	Three Months Ended		Nine Months Ended	
	February 28, 2007	February 28, 2006	February 28, 2007	February 28, 2006
Fair Value		2,143,309	1,090,890	3,802,905

Expected volatility	73.1%	71.5%	73.1%	71.5%
Risk-free interest rate	5.0%	4.4%	5.0%	4.4%
Dividend yield				
Expected lives	6.8 years	7.0 years	6.8 years	7.0 years

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on historical volatility of our common stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with equivalent remaining term.

On June 30, 2006, we issued 5,000 options to purchase shares of common stock to one individual at a price of $9.65 per share. On July 6, 2006, we issued 33,000 options to purchase shares of common stock to 22 individuals at a price of $10.94 per share. On July 21, 2006, we issued 2,000 options to purchase shares of common stock to one individual at a price of $11.59 per share. On August 14, 2006, we issued 25,000 options to purchase shares of common stock to one individual at a price of $10.87 per share. On September 20, 2006, we issued 60,000 options to purchase shares of common stock to six individuals at a price of $13.03 per share. On October 11, 2006, we issued 2,500 options to one individual at a price of $14.68 per share. For all options other than the September 20, 2006 option grant, we will expense the share-based compensation over the vesting period of the options, which is four years. The options granted on September 20, 2006, vested immediately.

The weighted average grant-date fair value of options granted during the nine months ended February 28, 2007 and February 28, 2006 was $1,090,890 and $3,802,905, respectively. The weighted average grant date fair value of options granted during the three months ended February 28, 2007 and February 28, 2006 was $0 and $2,143,309, respectively.

The following table summarizes our stock option activity during the nine months ended February 28, 2007:

	Shares	Range of Exercise Prices	Weighted Average Exercise Price	Weighted Average Remaining Contractual Terms (years)	Aggregate Intrinsic Value
Outstanding at May 31, 2006	1,747,375	$ 3.62 - $19.00	$ 11.11		
Granted at Fair Value	65,000	$ 9.65 - $11.59	$ 10.83		
Exercised	3,500	$ 5.15 - $7.13	$ 6.43		
Expired	0				
Cancelled	16,000	$ 5.15 -- $15.15	$ 12.80		
Outstanding at August 31, 2006	1,791,875	$ 3.62 -- $19.00	$ 11.10	6.06	2,797,666
Exercisable at August 31, 2006	533,500	$ 3.62 -- $15.90	$ 11.24	6.06	353,500
Granted at Fair Value	62,500	$ 13.03 - $14.68	$ 13.10		
Exercised	28,125	$ 5.08 - $13.21	$ 7.83		
Expired	5,000	$ 11.44	$ 11.44		
Cancelled	9,375	$ 10.66 -- $22.02	$ 17.07		
Outstanding at November 30, 2006	1,811,875	$ 3.62 -- $19.00	$ 11.18	6.23	$ 8,312,282
Exercisable at November 30, 2006	983,625	$ 3.62 -- $15.90	$ 9.54	6.23	$ 5,663,189
Granted at Fair Value	0				
Exercised	3,375	$ 5.15 - $11.92	$ 5.90		

Expired	95,000	$ 10.81	$ 10.81			
Cancelled	31,125	$ 11.92 - $13.05	$ 12.86			
Outstanding at February 28, 2007	1,682,375	$ 3.62 -- $18.55	$ 11.08	6.62	$	29,700
Exercisable at February 28, 2007	1,116,500	$ 3.62 -- $18.55	$ 10.27	6.62	$	29,700

The aggregate intrinsic value in the table above is before taxes and based on a weighted average exercise price of $11.08 for options outstanding at February 28, 2007 and $10.27 for options exercisable at February 28, 2007. The total intrinsic value of options exercised during the three months ended February 28, 2007 and February 28, 2006 was $33,476 and $56,320, respectively. The total intrinsic value of options exercised during the nine months ended February 28, 2007 and February 28, 2006 was $240,254 and $66,433, respectively. The total fair value of options vested during the three months ended February 28, 2007 and February 28, 2006 was $553,756 and $568,441, respectively. The total fair value of options vested during the nine months ended February 28, 2007 and February 28, 2006 was $2,256,198 and $2,112,524, respectively.

(6) RECENTLY ISSUED ACCOUNTING STANDARD

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) 48, Accounting for Uncertainty in Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement of Financial Accounting Standards (SFAS) 109, Accounting for Income Taxes. This Interpretation defines the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the effect that the adoption of FIN 48 will have on our financial position and results of operations.

In November 2006, the U.S. Securities and Exchange Commission (SEC) issued SEC Staff Accounting Bulletin (SAB) 108, Considering the Effects of Prior Year Misstatements in current year Financial Statements. SAB 108 requires registrants to quantify misstatements using both the balance sheet and income-statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of the relevant quantitative and qualitative factors. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. We are currently evaluating the effect that the adoption of SAB 108 will have on our financial position and results of operations.

(7) RESTRICTED CASH

As of February 28, 2007, we had $223,454 in restricted cash from a government grant. The funds are being used in accordance with the terms of the grant and all funds will be used during the current fiscal year. We account for the lapse in cash s restriction when grant expenditures are incurred. We recognize the funds as a contra-expense or a reduction in the asset carrying value based on the type of grant expenditure incurred.

(8) MARKETABLE SECURITIES

At February 28, 2007, our funds are invested in 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 $20,776,156 at February 28, 2007, which included gross unrealized holding losses of $3,064. The fair market value of our marketable securities was $33,677,649 at May 31, 2006, which included gross unrealized holding losses of $1,373. All of these marketable securities are scheduled to mature in less than one year.

(9) PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the lesser of the life of the asset or the term of the lease, generally five years.

On June 23, 2006, we purchased our previously leased manufacturing facility for $6,731,000. With the purchase, the lease for the facility has been canceled, the asset retirement obligation was terminated, and the lease deposit of $49,200 was refunded to us.

(10) LEGAL PROCEEDINGS

Between March 17, 2006 and May 15, 2006, ten separate complaints were filed, each purporting to be on behalf of a class of our stockholders, against Northfield and Dr. Steven A. Gould, our Chief Executive Officer, and Richard DeWoskin, our former Chief Executive Officer. Those putative class actions have been consolidated in a case pending in the United States District Court for the Northern District of Illinois Eastern Division. The Consolidated Amended Class Action Complaint was filed on September 8, 2006, and alleges, among other things, that during the period from March 19, 2001 through March 20, 2006, the named defendants made or caused to be made a series of materially false or misleading statements and omissions about Northfield s elective surgery clinical trial and business prospects in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. Plaintiffs allege that those allegedly false and misleading statements and omissions caused the purported class to purchase shares of our common stock at artificially inflated prices. As relief, the complaint seeks, among other things, a declaration that the action be certified as a proper class action, unspecified compensatory damages (including interest) and payment of costs and expenses (including fees for legal counsel and experts). The putative class action is at an early stage and it is not possible at this time to predict the outcome of any of the matters or their potential effect, if any, on Northfield or the clinical development or future commercialization of PolyHeme. We intend to defend vigorously against the allegations stated in the Consolidated Amended Class Action Complaint.

On March 13, 2006, the SEC notified us that it is conducting an informal inquiry, and requested that we voluntarily provide the SEC with certain categories of documents from 1998 to the present primarily relating to our public disclosures concerning the clinical development of PolyHeme. Since that time, the SEC has sent us additional requests for documents and information, and has modified its initial requests. We are cooperating with the SEC and have been providing the SEC with the requested documents and information on a rolling basis.

On March 17, 2006, we also received a letter from Senator Charles E. Grassley, then Chairman of the Senate Finance Committee, requesting that we provide certain categories of documents relating to the Phase III clinical trauma trial as well as documents relating to correspondence with FDA. Subsequently, we produced documents to the Committee, and the Committee requested additional documents which were also provided.

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

RECENT DEVELOPMENTS

On December 19, 2006 we reported preliminary top-line data in our pivotal Phase III trauma trial assessing the efficacy and safety of PolyHeme. However, because of discrepancies that were identified in the dates of death for two patients, the data collected is being re-verified and the database is being unlocked and corrected prior to finalizing the statistical analyses.

The study was conducted to seek an indication for the use of PolyHeme that addresses a critical unmet medical need when red blood cell transfusion is indicated but blood is not immediately available. This was an active control dual superiority/non-inferiority trial comparing the survival of trauma patients receiving PolyHeme, starting at the scene of injury and continuing for up to 6 units or 12 hours before receiving blood, to the survival of patients who received standard treatment that did include early blood transfusion upon arrival at the hospital.

The primary efficacy endpoint was Day 30 mortality. Before the trial began, an agreement with FDA was reached regarding the acceptable statistical boundary or margin for non-inferiority. The term non-inferior , meaning not different or not worse than, is a relative term that represents the predefined statistical margin for the comparison of mortality between the PolyHeme and control groups. In our study, that margin for Day 30 mortality for PolyHeme patients was selected based on historical data and the trial setting, and was set at up to 7% more than those patients with early access to blood. The actual observed mortality difference of the PolyHeme group relative to the control group had to be considerably less than 7% worse, as did occur in the trial.

The primary analysis group in the trial includes 712 patients who were randomized and received some treatment, including those with major protocol violations. Preliminary results from the uncorrected study data for this group show that for the non-inferiority endpoint, the 7% margin was exceeded by 0.3% There were 586 patients randomized and treated in full compliance with the protocol. In these patients the outcome was well below the 7% margin, at 5.8%.

As previously announced, the discrepancies in the pivotal Phase III trauma trial database are being thoroughly reviewed and audited from both an internal and external perspective. The internal audit, conducted by our contract research organization, is essentially completed. The external audit, conducted by third party consultants, is nearing completion.

When the study data has been verified and any discrepancies resolved and corrected in the database, the database will be re-locked and a reanalysis of the data base will be performed. We expect to finish the external audit of the data base, submit a report to FDA and inform shareholders during April, 2007.

Since Northfield s incorporation in 1985, we have devoted substantially all of our efforts and resources to the research, development and clinical testing of PolyHeme. 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 February 28, 2007, we have incurred operating losses totaling $193,414,000.

We will be required to prepare and submit a Biological License Application, or BLA, to FDA and obtain regulatory approval from FDA before PolyHeme can be sold commercially. The FDA regulatory process is subject to significant risks and uncertainties. We therefore cannot at this time reasonably estimate the timing of any future revenues from the commercial sale of our product candidate, 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.

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.

RESULTS OF OPERATIONS

We reported no revenues for either of the three and nine-month periods ended February 28, 2007 or 2006. From Northfield s inception through February 28, 2007, we have reported total revenues of $3,000,000, all of which were derived from licensing fees.

OPERATING EXPENSES

Operating expenses for our third fiscal quarter ended February 28, 2007 totaled $6,746,000, a decrease of $494,000 from the $7,240,000 reported in the third quarter of fiscal 2006. Measured on a percentage basis, third quarter fiscal 2007 operating expenses were less than third quarter fiscal 2006 expenses by 6.8%. The decrease is primarily driven by a decrease in spending for site related clinical

expenses related to our Phase III trial of PolyHeme as it was completed in the first fiscal quarter of 2007. This decrease was somewhat offset by an increase in professional fees relating to our legal proceedings and an increase in share-based compensation expense as we adopted SFAS 123R in the current fiscal year. See Share-Based Compensation within the notes to our unaudited financial statements included in this report. See Legal Proceedings within Part II, Item 1, included in this report.

Research and development expenses during the third quarter of fiscal 2007 totaled $4,476,000, a decrease from the $5,786,000 reported in the third quarter of fiscal 2006. This decrease is due to a decrease in spending for site related clinical expenses related to our Phase III trial as it was completed in the first fiscal quarter of 2007. The decrease was partially offset by an increase in salaries and benefits brought on by an increase in headcount to 81 as of February 28, 2007 from 62 as of February 28, 2006. This is directly related to the preparation required for the reporting of data from our trial to FDA, as well as our preparation for FDA review of our manufacturing facility.

We anticipate a continued high level of research and development spending for the remainder of fiscal 2007. We reported preliminary top-line data of our pivotal Phase III trial in the current fiscal quarter and continue the significant task of data verification, assembly, analysis and report preparation for FDA. Preparing the Biologics License Application, or BLA, for PolyHeme to be submitted to FDA will continue through fiscal 2007. At the same time, we will continue an extensive process of preparation for FDA s review of our manufacturing facility. Northfield s internal research and development resources will be focused on these tasks and we expect to expand the use of external resources to complete the tasks in a timely manner.

General and administrative expenses in the third quarter of fiscal 2007 totaled $2,270,000, which is an increase of $816,000, or 56.1%, from the $1,454,000 of general and administrative expenses reported in the third quarter of fiscal 2006. The increased expenses in the third quarter of fiscal 2007 compared to the third quarter of fiscal year 2006 were due to increased professional service fees related to our ongoing legal proceedings and share-based compensation expense with the adoption of SFAS 123R in the first quarter of fiscal 2007. We anticipate significant general and administrative expense increases for the remainder of fiscal 2007. Legal expenses, additional share-based compensation expense, as well as other professional service costs, such as market research and corporate communications, are expected.

For the nine-month period ended February 28, 2007, operating expenses of $23,462,000 exceeded the operating expenses of $20,756,000 incurred in the nine-month period ended February 28, 2006. The dollar increase was $2,706,000 and the percentage increase equaled 13.0%. The increases were primarily driven by legal expenses and share-based compensation. In addition, we experienced increases in salaries and benefits as we expanded our internal capabilities through increased headcount.

Research and development expenses for the nine-month period ended February 28, 2007 totaled $15,928,000, which represents a $526,000, or 3.2%, decrease from the comparable expenses incurred in the nine-month period ended February 28, 2006. This decrease is due to reduced spending for site related clinical expenses related to our Phase III trial as it was completed in the first fiscal quarter of 2007. The decrease was partially offset by increased expenses during the first nine months of the fiscal year in share- based compensation and salaries and benefits.

General and administrative expenses for the nine-month period ended February 28, 2007 totaled $7,535,000, which is an increase of $3,232,000, or 75.1%, from the $4,303,000 of general and administrative expenses reported for the nine-month period ended February 28, 2006. The increased expenses for the first nine months of the fiscal year compared to the first nine months of the fiscal year 2006 were primarily the result of increased professional service fees related to our ongoing legal proceedings and share-based compensation expense with the adoption of SFAS 123R in the first quarter of fiscal 2007.

INTEREST INCOME

Interest income for the three-month period ended February 28, 2007 totaled $635,000, a decrease of $210,000 from the $845,000 in interest income reported in the three-month period ended February 28, 2006. Although we had a significantly lower level of cash and marketable securities available to invest during the current fiscal quarter, the increase in short-term interest rates by 50-60 basis points offset some of the negative impact.

Interest income for the nine-month period ended February 28, 2007 totaled $2,185,000, a decrease of $127,000 from the $2,312,000 in interest income reported in the nine-month period ended February 28, 2006. Significantly lower levels of cash and marketable securities available to invest during the current fiscal period caused the decrease although higher short-term interest rates offset some of the negative impact. We continue to invest our funds only in high grade, short-term instruments.

NET LOSS

Our net loss for the three-month period ended February 28, 2007 totaled $6,112,000, or $0.23 per share, compared to a net loss of $6,395,000, or $0.24 per share, for the three-month period ended February 28, 2006. In dollar terms, the loss decreased by $283,000, or 4.4%, primarily as a result of a decrease in spending for site related clinical expenses related to our Phase III trial as it was completed in the first fiscal quarter of 2007. This decrease was offset by an increase in professional services related to our ongoing legal proceedings. Also included in the current fiscal quarter was share-based compensation expense as we adopted SFAS 123R in the current fiscal year and reduced interest income.

On a fiscal year to date basis, we reported a loss of $21,277,000, or $0.79 per share, compared to a prior year nine-month loss of $18,445,000, or $0.69 per share. The increased net loss of $2,832,000, or 15.4%, was primarily the result of legal expenses, share-based compensation, and salaries and benefits expense. These expenses were offset somewhat by a decrease in spending for outside clinical expenses related to our Phase III trial.

LIQUIDITY AND CAPITAL RESOURCES

From Northfield s inception through February 28, 2007, we have used cash in operating activities and for the purchase of property, plant, equipment and engineering services in the amount of $196,575,000. For the nine months ended February 28, 2007 and 2006, these cash expenditures totaled $27,959,000 and $19,240,000, respectively. The current fiscal year nine-month increase in cash utilization is due primarily to our purchase of our previously leased manufacturing facility for $6,731,000. Other contributing factors are our increased salaries and benefit expense related to our increased infrastructure, as well as professional fees and expenses related to our ongoing legal proceedings.

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 February 28, 2007, we had cash, restricted cash and marketable securities totaling $47,119,000. As previously reported, we have been successful in securing a $1.4 million federal appropriation as part of the Defense Appropriation Bill in 2005 and a $3.5 million federal appropriation as part of the Fiscal 2006 Defense Appropriation Bill. As of February 28, 2007, we have received $1,235,000 of these funds.

We are currently utilizing our cash resources at a rate of approximately $25 million per year. The rate at which we utilize our cash resources will significantly increase over the next two years should we launch our planned commercial manufacturing facility construction project and further expand our business organization in support of product launch. Additional costs will also be incurred during 2007 in preparing a BLA for PolyHeme to be filed with FDA.

Based on our current estimates, we believe our existing capital resources would be sufficient to permit us to conduct our operations, including the preparation and submission of a BLA to FDA, for approximately 18 to 21 months. As of the date of this report, a decision to launch our planned

manufacturing facility construction project and expansion of our manufacturing, sales, marketing and distribution capabilities has been deferred until we have final data from our pivotal Phase III trial and have submitted that data to FDA.

We may in the future issue additional equity or debt securities or enter into collaborative arrangements with strategic partners, which could provide us with additional funds 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.

Our capital requirements may vary materially from those now anticipated because of the timing of final 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 February 28, 2007, 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 February 28, 2007:

Contractual Obligations	TOTAL	LESS THAN ONE YEAR	1-3 YEARS
Lease Obligations (1)	$ 817,004	$ 358,509	458,495
Other Obligations (2)	$ 1,230,000	$ 1,230,000	
Total Contractual Cash Obligation	$ 2,047,004	$ 1,588,509	$ 458,495

(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 officers following a change in control of Northfield.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) 48, Accounting for Uncertainty in Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement of Financial Accounting Standards (SFAS) 109, Accounting for Income Taxes. This Interpretation defines the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the effect that the adoption of FIN 48 will have on our financial position and results of operations.

In November 2006, the U.S. Securities and Exchange Commission (SEC) issued SEC Staff Accounting Bulletin (SAB) 108, Considering the Effects of Prior Year Misstatements in Current Year Financial Statements. SAB 108 requires registrants to quantify misstatements using both the balance sheet and income-statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of the relevant quantitative and qualitative factors. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company is currently evaluating the effect that the adoption of SAB 108 will have on its financial position and results 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 $46,895,000 at February 28, 2007 would decrease interest income by $469,000 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 Vice President Finance 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 1. Legal Proceedings.

Between March 17, 2006 and May 15, 2006, ten separate complaints were filed, each purporting to be on behalf of a class of our stockholders, against Northfield and Dr. Steven A. Gould, our Chief Executive Officer, and Richard DeWoskin, our former Chief Executive Officer. Those putative class actions have been consolidated in a case pending in the United States District Court for the Northern District of Illinois Eastern Division. The Consolidated Amended Class Action Complaint was filed on September 8, 2006, and alleges, among other things, that during the period from March 19, 2001 through March 20, 2006, the named defendants made or caused to be made a series of materially false or misleading statements and omissions about Northfield s elective surgery clinical trial and business prospects in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act. Plaintiffs allege that those allegedly false and misleading statements and omissions caused the purported class to purchase shares of our common stock at artificially inflated prices. As relief, the complaint seeks, among other things, a declaration that the action be certified as a proper class action, unspecified compensatory damages (including interest) and payment of costs and expenses (including fees for legal counsel and experts). The putative class action is at an early stage and it is not possible at this time to predict the outcome of any of the matters or their potential effect, if any, on Northfield or the clinical development or future commercialization of PolyHeme. We intend to defend vigorously against the allegations stated in the Consolidated Amended Class Action Complaint.

On March 13, 2006, the SEC notified us that it is conducting an informal inquiry, and requested that we voluntarily provide the SEC with certain categories of documents from 1998 to the present primarily relating to our public disclosures concerning the clinical development of PolyHeme. Since that time, the SEC has sent us additional requests for documents and information, and has modified its initial requests. We are cooperating with the SEC and have been providing the SEC with the requested documents and information on a rolling basis.

On March 17, 2006, we also received a letter from Senator Charles E. Grassley, then Chairman of the Senate Finance Committee, requesting that we provide certain categories of documents relating to our Phase III clinical trauma trial as well as documents relating to correspondence with FDA. Subsequently, we produced documents to the Committee, and the Committee requested additional documents which were also provided.

Item 6. Exhibits.

Exhibit 15	Letter regarding 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 Donna O Neill-Mulvihill, 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 Donna O Neill-Mulvihill, 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 April 9, 2007.

Signature	Title
/s/ Steven A. Gould, M.D. Steven A. Gould, M.D.	Chairman of the Board and Chief Executive Officer
/s/ Donna O Neill-Mulvihill Donna O Neill-Mulvihill	Vice President of Finance