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HUFFY CORP  
Form 8-K  
April 17, 2003

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report: April 16, 2003  
(Date of earliest event reported)

HUFFY CORPORATION

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(Exact name of Registrant as specified in its Charter)

Ohio

1-5325

31-0326270

(State or other jurisdiction of  
incorporation)

(Commission File No.)

(IRS Employer Identification  
Number)

225 Byers Road, Miamisburg, Ohio

45342-3657

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (937) 865-5431

N/A

(Former name or former address, if changed since last report)

Item 7. Financial Statements and Exhibits

(c)

Exhibits.

99.1 Earnings Release dated April 16, 2003

Item 9.

The information contained in this Item 9 of this Current Report is being furnished pursuant to Item 12. Results of Operations and Financial Condition of Form 8-K in accordance with SEC Release Nos. 33-8216; 34-47583.

The information in this Current Report is being furnished and shall not be deemed filed for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in this Current Report shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended.

On April 16, 2003, Huffly Corporation issued an earnings release announcing its financial results for the first quarter ended March 31, 2003. A copy of the earnings release is attached as Exhibit 99.1.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Registrant:

HUFFY CORPORATION

Date: 4/16/03

/s/ Robert W. Lafferty

By: Robert W. Lafferty

Vice President - Finance

**Contact:**

**Robert W. Lafferty**

**V.P. Finance, CFO and Treasurer**

**(937) 865-5407**

**HUFFY CORPORATION ANNOUNCES FIRST QUARTER EARNINGS**

**FIRST QUARTER HIGHLIGHTS**

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**FIRST QUARTER SALES INCREASED 34% TO \$95 MILLION**

•

**EARNINGS IN LINE WITH EXPECTATIONS**

**MIAMISBURG, OHIO, April 16, 2003** HUFFY CORPORATION (NYSE-HUF) today announced a loss for the first quarter of \$1.4 million or \$0.09 per common share, compared to earnings of \$0.6 million or \$0.06 per common share for the first quarter of 2002.

Net sales for the first quarter of 2003 increased by 34% to \$94.6 million when compared to sales of \$70.4 million for the first quarter of 2002. Gross margins for the first quarter increased by 3.9 percentage points to 21.0% when compared to the 17.1% gross margin reported for the first quarter of 2002. Selling, general and administrative expense as a percentage of sales increased 6.5 percentage points to 21.5% compared to 15.0% in the first quarter of 2002.

Don R. Graber, Chairman, President and CEO, commented, "We are pleased that results for the quarter were in line with previous guidance. The first quarter is traditionally our lowest sales quarter, plus this year, we made the decision to increase our investment in brand development by enhancing advertising, trade show participation and new product promotional spending. We believe this investment in brand development will provide tangible benefits over the balance of the year."

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Mr. Graber continued, "The significant sales growth during the quarter was gratifying given the continued difficult economic and retail environment. Both the Gen-X and McCalla acquisitions made substantial contributions to sales growth. Additionally, we were pleased with our margin improvement in the quarter and expect that trend to continue throughout 2003. We kept our expenses under control for the quarter, excluding the previously mentioned spending for advertising, trade show participation and new product promotional activities. During the quarter we launched a strong flow of new products such as the new Tommy Armour 845 Silverback™ golf clubs, the Canopy Trike™, the new putting green line, and the Green Machine™. Our plan calls for additional new product launches during the second quarter. In our retail service business, we signed an amended long-term contract with a major customer during the first quarter. We anticipate that this contract will generate in excess of \$100 million in revenues over the next three years."

"We believe the current economic environment and world political issues will continue to make the future difficult to predict. Retailers continue to be cautious in their inventory planning and we expect that trend to continue until consumer confidence strengthens. Mr. Graber further commented, "Despite this, we currently expect sales in the \$470.0 million range and earnings per share in the \$0.55 to \$0.65 range for the full year 2003."

Mr. Graber concluded, "We will continue to focus on growing our business through new product introductions, expansion of current product categories and strategic acquisitions. We remain optimistic about the long-term prospects of our company and the industry and will continue to strive towards our goal of becoming a larger player in the sporting goods market and retail service segment."

**Company Conference Call**

The Company will provide a web simulcast and rebroadcast of its fourth quarter earnings release conference call. The live broadcast of the Company's quarterly conference call is scheduled for April 16, 2003, beginning at 11:00 a.m. EDT and will be accessible online at <http://www.viavid.com/detailpage.asp?sid=1977> and [www.huffy.com](http://www.huffy.com). The online replay will be available shortly after the conference call and will continue to be available through April 24, 2003.

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Huffy Corporation (NYSE-HUF) is a diversified sporting goods company, marketing basketball equipment, sports balls and other outdoor games under the Huffy Sports®, HydraRib®, and SureShot® brands; bicycles and wheeled products under the Huffy®, Royce Union®, Micro®, and Airborne® brands; golf equipment under the Tommy Armour®, Ram®, Teardrop® and Zebra® brands; snowboards and accessories under the LTD®, Lamar® and Sims® brands; Hespeler® hockey equipment; Volant® ski equipment; and a variety of action sports items including skateboards, inline skates, and helmets under the UltraWheels®, Rage®, and Dukes® brands, and markets a variety of products as a licensee under Disney®, Oxygen®, Airwalk®, NBA® and NCAA® trademarks; and is a leading provider of assembly and merchandising services to retailers.

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The discussion in this press release contains forward-looking statements and is qualified by the cautionary statements contained in the Company's report on Form 10-K, dated February 20, 2003.

**HUFFY CORPORATION  
CONSOLIDATED STATEMENTS OF EARNINGS  
(Dollars in thousands, except per share data)**

**Three Months Ended**

**March 31,**

	<b>2003</b>	<b>2002</b>
Net sales	\$94,626	\$70,385

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Gross profit	19,886	12,001
% to net sales	21.0%	17.1%
Selling, general and administrative expenses	20,298	10,528
Operating income (loss)	(412)	1,473
Other expense		
Interest expense, net	1,111	302
Other	166	204
	1,277	506
Earnings (loss) before income taxes	(1,689)	967
Income tax expense (benefit)	(337)	343
Net earnings (loss)	(\$1,352)	\$624
Earnings (loss) per common share:		
Weighted average number of common shares	14,679,816	10,617,935
DILUTED:		
Net earnings (loss) per common share	(\$0.09)	\$0.06

**BALANCE SHEET HIGHLIGHTS (Dollars in thousands, except per share data)**

	<b>March 29, 2003</b>	<b>December 31, 2002</b>	<b>March 30, 2002</b>
Cash and cash equivalents	\$0	\$5,419	\$13,907
Receivables, net	83,878	92,850	55,834
Inventories	47,965	41,847	16,394
Prepaid expenses and other expenses	28,852	26,462	20,132
Total current assets	160,695	166,578	106,267
Property, plant and equipment, net	11,643	11,140	9,095
Intangibles and others	106,398	104,483	34,909
Total assets	\$278,736	\$282,201	\$150,271
Notes payable and current portion of long-term debt	\$61,313	\$59,327	\$0

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Accounts payable and accruals	73,609	94,488	58,915
Income taxes and other	8,085	8,090	6,254
Total current liabilities	143,007	161,905	65,169
Long-term debt	15,653	317	0
Other liabilities	49,299	48,232	18,687
Shareholders' equity	70,777	71,747	66,415
Total liabilities and shareholders' equity	\$278,736	\$282,201	\$150,271
Equity per common share outstanding	\$4.82	\$4.90	\$6.39
Working capital ratio	1.1	1.0	1.6

t"> (200,633) (200,633) 190,601

Exercise of stock options at \$2.00 per share	47,115	471	93,759	94,230
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	4,976,855	4,978,610
Issuance of common stock at \$28.49 per share on March 30, 1989 (net of costs of issuance of \$10,697)	87,760	878	2,488,356	2,489,234
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	7,443,118
Net loss			(791,206)	(791,206)
Deferred compensation relating to grant of stock options			683,040	(683,040)
Amortization of deferred compensation			800,729	800,729
Balance at May 31, 1989	\$ 6,476,585	\$64,766	\$ 35,728,451	\$(6,886,101) \$(936,175) \$27,970,941
Net loss			(3,490,394)	(3,490,394)
Deferred compensation relating to grant of stock options			699,163	(699,163)
Amortization of deferred compensation			546,278	546,278
Balance at May 31, 1990	\$ 6,476,585	\$64,766	\$ 36,427,614	\$(10,376,495) \$(1,089,060) \$25,026,825
Net loss			(5,579,872)	(5,579,872)
Amortization of deferred compensation				



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435,296      435,296

Balance at May 31, 1991

\$ 6,476,585 \$64,766      \$      \$ \$36,427,614 \$(15,956,367) \$(653,764)      \$19,882,249

Exercise of stock warrants at \$5.60 per share

90,000 900      503,100      504,000

Net loss

(7,006,495)      (7,006,495)

Amortization of deferred compensation

254,025      254,025

Balance at May 31, 1992

\$ 6,566,585 \$65,666      \$      \$ \$36,930,714 \$(22,962,862) \$(399,739)      \$13,633,779

Exercise of stock warrants at \$7.14 per share

15,000 150      106,890      107,040

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      5,663,710      5,667,454

Net loss

(8,066,609)      (8,066,609)

Amortization of deferred compensation

254,025      254,025

Balance at May 31, 1993

\$ 6,955,955 \$69,560      \$      \$ \$42,701,314 \$(31,029,471) \$(145,714)      \$11,595,689

Net loss

(7,363,810)      (7,363,810)

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      14,163,851      14,188,851

Cancellation of stock options

(85,400)      85,400

Amortization of deferred compensation

267      267

Balance at May 31, 1994

\$ 9,455,955 \$94,560      \$      \$ \$56,779,765 \$(38,393,281) \$(60,047)      \$18,420,997

Net loss

(7,439,013)      (7,439,013)

Issuance of common stock at \$6.50 per share on June 20, 1994 (net of issuance costs of \$172,500)

375,000 3,750      2,261,250      2,265,000

Exercise of stock options at \$7.14 per share

10,000 100      71,300      71,400

Exercise of stock options at \$2.00 per share

187,570 1,875      373,264      375,139

Cancellation of stock options

(106,750)      106,750

Amortization of deferred compensation

(67,892)      (67,892)

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Balance at May 31, 1995

\$ 10,028,525 \$100,285 \$ \$59,378,829 \$(45,832,294) \$(21,189) \$13,625,631

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

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**NORTHFIELD LABORATORIES INC.**

(a company in the development stage)

## Statements of Shareholders' Equity (Deficit)

Nine months ended February 29, 2008 and the cumulative period  
from June 19, 1985 (inception) through February 29, 2008

	Preferred stock Number of shares	Aggregate Number of shares	Common stock Aggregate Number of shares	Series A convertible preferred stock Number of shares	Series B convertible preferred stock Number of shares	Additional paid-in capital	Deficit		Treasury shares	Total share- holders equity (deficit)
							accumulated during the development stage	Deferred compen- sation		
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 \$423,238)		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)
Balance at May 31, 1996	\$	13,586,155	\$ 135,862	\$	\$	\$ 115,427,120	\$ (50,611,169)	\$ (3,853)		\$ 64,947,960

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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)

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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
	237,008	2,370		1,255,853			1,258,223

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Issuance of common stock at \$5.80 per share on February 18, 2004 (net of costs of issuance of \$116,423)							
Issuance of common stock at \$5.80 per share on April 15, 2004 (net of costs of issuance of \$192,242)	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

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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	\$ 26,752,739	\$ 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	

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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				(9,059)			9,059		
Exercise of stock options at \$5.15 and \$7.13 per share	2,750	28		17,105				17,133	
Exercise of stock options at \$7.13 per share	750	7		5,348				5,355	
Issuance of common stock to directors at \$13.03 per share on September 20, 2006	6,912	69		89,931				90,000	
Exercise of stock options at \$11.44 per share	10,000	100		114,300				114,400	
Exercise of stock options at \$5.15, \$11.92 and \$13.21 per share	3,125	31		24,646				24,677	
Exercise of stock options at \$5.08 and \$6.08 per share	15,000	150		81,050				81,200	
Exercise of stock options at \$5.15 per share	3,000	30		15,420				15,450	
Exercise of stock options at \$11.92 per share	375	4		4,466				4,470	
	96,974	969		666,211				667,180	



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Exercise of warrants at \$6.88 per share								
Share-based compensation					2,655,849			2,655,849
Net loss						(27,671,177)		(27,671,177)
Balance at May 31, 2007	\$	26,916,541	\$ 269,165	\$	\$ 244,905,543	\$ (199,807,606)	\$	(25,393) \$ 45,341,709
Share-based compensation (unaudited)					1,538,127			1,538,127
Issuance of common stock to directors at \$2.06 per share on September 25, 2007								
(unaudited)		43,692	437		89,563			90,000
Net loss (unaudited)						(14,657,385)		(14,657,385)
Balance at February 29, 2008	\$	26,960,233	\$ 269,602	\$	\$ 246,533,233	\$ (214,464,991)	\$	(25,393) \$ 32,312,451
(unaudited)								

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 29, 2008 and February 28, 2007

and the cumulative period from June 19, 1985

(inception) through February 29, 2008

	<b>Nine months ended</b>		<b>Cumulative</b>
	<b>February</b>	<b>February 28,</b>	<b>from</b>
	<b>29, 2008</b>	<b>2007</b>	<b>June 19, 1985</b>
	(unaudited)	(unaudited)	<b>through</b>
			<b>February 29,</b>
			<b>2008</b>
			(unaudited)
Cash flows from operating activities:			
Net loss	\$ (14,657,385)	(21,277,396)	(214,464,991)
Adjustments to reconcile net loss to net cash used in operating activities:			
Marketable security amortization	(448,158)	(941,208)	(3,960,225)
Depreciation and amortization	477,495	378,491	19,911,157
Stock based compensation	1,628,127	2,355,256	8,435,000
Loss of sale of equipment			86,088
Changes in assets and liabilities:			
Restricted cash	(59,562)	703,039	589,314
Prepaid expenses	345,325	586,178	(537,078)
Other current assets	212,854		(1,896,251)
Other assets		49,391	55,791
Accounts payable	(1,810,221)	(1,151,567)	1,762,804
Accrued expenses	87,208	28,099	188,326
Government grant liability	59,562	(703,039)	(589,314)
Accrued compensation and benefits	276,964	(563)	842,673
Other liabilities	6,417	(244,382)	13,848
Net cash used in operating activities	(13,881,374)	(20,217,701)	(189,562,858)
Cash flows from investing activities:			
Purchase of property, plant, equipment, and capitalized engineering costs	(235,950)	(7,741,713)	(28,139,118)
Proceeds from sale of land and equipment			1,863,023
Proceeds from matured marketable securities	48,161,753	75,000,000	753,808,105
Proceeds from sale of marketable securities			7,141,656
Purchase of marketable securities	(40,742,415)	(61,158,990)	(766,958,340)
Net cash provided by (used in) investing activities	7,183,388	6,099,297	(32,284,674)

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Cash flows from financing activities:			
Proceeds from issuance of common stock		929,868	237,055,000
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	238,373,572
Net increase (decrease) in cash	(6,697,986)	(13,188,536)	16,526,040
Cash at beginning of period	23,224,026	39,304,602	
Cash at end of period	\$ 16,526,040	26,116,066	16,526,040

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 29, 2008**  
**(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, 2007.

As of February 29, 2008, we had cash and cash equivalents of approximately \$27 million. We are currently utilizing our cash resources at a rate of approximately \$24 million per year, and we expect to maintain this rate of cash utilization through the submission of our Biologics License Application to the Food and Drug Administration. We anticipate that our existing financial resources will be adequate to permit us to continue to conduct our business only for the next 12 to 14 months. We will need to raise additional capital to continue our business after this period. Our future capital requirements will depend on many factors, including the timing and outcome of regulatory reviews, administrative and legal expenses, the status of competitive products, the establishment of manufacturing capacity and the establishment of collaborative relationships. We cannot ensure that additional funding will be available or, if it is available, that it can be obtained on terms and conditions we will deem acceptable. Any additional funding derived from the sale of equity securities is likely to result in significant dilution to our existing stockholders.

**(2) USE OF ESTIMATES**

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

**(3) COMPUTATION OF NET LOSS PER SHARE**

Basic earnings per share is based on the weighted average number of shares outstanding and excludes the dilutive effect of unexercised common stock equivalents. Diluted earnings per share is based on the weighted average number of shares outstanding and includes the dilutive effect of unexercised common stock equivalents. Because we reported net losses for all periods presented, basic and diluted per share amounts are the same. As of February 29, 2008, we have 2,036,707 options and 115,418 warrants that were excluded from the net loss per share calculation because their inclusion would have been anti-dilutive.

**(4) SHARE-BASED COMPENSATION**

The Company's 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 29, 2008, options to purchase a total of 60,000 shares of the Company's 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, the Company established the Northfield Laboratories Inc. 1996 Stock Option Plan (the 1996 Option Plan). This plan provides for the granting of stock options to the Company's 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. As of February 29, 2008, options to purchase a total of 152,500 shares of the Company's common stock at prices between \$10.66 and \$15.41 were outstanding. These options expire between 2008 and 2010, ten years after the date of grant.

With an effective date of June 1, 1999, the Company established the Northfield Laboratories Inc. 1999 Stock Option Plan (the 1999 Option Plan). This plan provides for the granting of stock options to the Company's 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. As of February 29, 2008, options to purchase a total of 275,625 shares of the Company's common stock at prices between \$3.62 and \$14.17 per share were outstanding. These options expire between 2011 and 2013, ten years after the date of grant.

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With an effective date of January 1, 2003, the Company established the New Employee Stock Option Plan (the New Employee Plan ). This plan provides for the granting of stock options to the Company's new employees. Stock options to purchase a total of 350,000 shares are available under the New Employee Plan. As of February 29, 2008, options to purchase a total of 55,000 shares of the Company's common stock at prices between \$3.62 and \$18.55 per share were outstanding. These options expire between 2013 and 2016, ten years after the date of grant.

With an effective date of September 17, 2003, the Company established and shareholders 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 the Company's employees, non-employee directors and consultants. On September 29, 2005, the number of available share awards was increased to 2,250,000 by shareholder approval. At February 29, 2008, options to purchase a total of 1,609,000 shares of the Company's common stock at prices between \$1.36 and \$18.55 were outstanding. These options expire between 2013 and 2017, 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. The 475,000 options granted on July 12, 2007 to the company officers have a two year vesting period with shares vesting at a rate of 50% each year. Options granted to the outside directors on September 25, 2007 vested immediately upon grant. Additionally, all outside directors were in total granted 43,692 shares on September 25, 2007 which also vested immediately.

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

The Company adopted Financial Accounting Standards Board ( FASB ) Statement No. 123 (revised), Share-Based Payment ( SFAS 123R ) in June 2006. 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 the Company's 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, is 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 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.

The Company does not recognize a tax benefit related to share-based compensation due to the historical net operating loss and related valuation allowance.

The impact of share-based compensation expenses on basic earnings per share for the three and nine months ended February 29, 2008 was \$.02 and \$.06, respectively, and the related charge associated with share-based compensation expense recognized in the Statement of Operations for the three and nine months ended February 29, 2008 was \$452,000 and \$1,628,000, respectively.

As of February 29, 2008, there was approximately \$2,210,250 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 1.52 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 nine months ended February 29, 2008 and February 28, 2007. There were no options granted in the three months ended February 29, 2008 and February 28, 2007.



	<b>Nine Months Ended</b>	
	<b>February 29, 2008</b>	<b>February 28, 2007</b>
Fair Value	\$ 679,560	\$ 1,090,890
Expected volatility	95.9%	73.1%
Risk-free interest rate	4.8%	5.0%
Dividend yield		
Expected lives	6.3 years	6.8 years

On June 14, 2007, the Company issued 52,500 options to purchase shares of common stock to 14 individuals at a price of \$1.43 per share. On July 12, 2007, the Company issued 475,000 options to purchase shares of common stock to 8 individuals at a price of \$1.36 per share. The Company will expense share-based compensation over the vesting period of the option which is four years for the June 14, 2007 grant and two years for the July 12, 2007 grant. On September 25, 2007 the Company issued 60,000 options to purchase shares of common stock to six individuals at a price of \$2.06 per share. The options granted on September 25, 2007, vested immediately. On September 25, 2007, the Company issued 43,692 share grants to six individuals at \$2.06 per share. These share grants vested immediately.

There were no options granted during the three months ended February 29, 2008 and February 28, 2007. The weighted average grant-date fair value of options granted during the nine months ended February 29, 2008 and February 28, 2007 was \$1.16 per share and \$8.55 per share, respectively.

The following table summarizes the Company's option activity during the nine months ended February 29, 2008:

	<b>Shares</b>	<b>Range of Exercise Prices</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Terms (years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at May 31, 2007	1,681,375	\$ 3.61 \$18.55	\$ 11.08		
Granted at Fair Value	527,500	\$ 1.36 \$1.43	\$ 1.37		
Exercised	0				
Expired	10,000	\$ 9.56	\$ 9.56		
Cancelled	77,000	\$ 7.57 \$13.05	\$ 11.18		
Outstanding at August 31, 2007	2,121,875	\$ 1.36 \$18.55	\$ 8.67	7.24	\$ 154,575
Exercisable at August 31, 2007	1,096,625	\$ 3.62 \$18.55	\$ 10.29	5.70	\$ 0
Granted at Fair Value	60,000	\$ 2.06	\$ 2.06		
Exercised	0				
Expired	0				
Cancelled	14,500	\$ 7.13 \$13.21	\$ 8.97		
Outstanding at November 30, 2007	2,167,375	\$ 1.36 \$18.55	\$ 8.48	5.72	\$ 0



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Exercisable at November 30, 2007	1,196,750	\$ 2.06	\$18.55	\$ 9.90	5.05	\$	0
Granted at Fair Value	0						
Exercised	0						
Expired	0						
Cancelled	15,250	\$ 7.13	\$14.17	\$ 11.27			
Outstanding at February 29, 2008	2,152,125	\$ 1.36	\$18.55	\$ 8.46	6.83	\$	0
Exercisable at February 29, 2008	1,340,750	\$ 2.06	\$18.55	\$ 10.28	5.65	\$	0

The aggregate intrinsic value in the table above is before taxes and based on a weighted average exercise price of \$8.46 for options outstanding at February 29, 2008. The total intrinsic value of options exercised during the three months ended February 29, 2008 and February 28, 2007 was \$0 and \$33,476, respectively. The total intrinsic value of options exercised during the nine months ended February 29, 2008 and February 28, 2007 was \$0 and \$240,254, respectively. The total fair value of options vested during the three months ended February 29, 2008 and February 28, 2007 was \$1,499,421 and \$553,756, respectively. The total fair value of options vested during the nine months ended February 29, 2008 and February 28, 2007 was \$2,103,068 and \$2,256,198, respectively.

**(5) RESTRICTED CASH**

As of February 29, 2008, the Company had \$589,314 in restricted cash from a government grant. All funds are used in accordance with the terms of the grant. The Company accounts for the lapse in restriction when grant expenditures are incurred. The Company recognizes the funds as a contra-expense or a reduction in the asset carrying value based on the type of grant expenditure incurred.

For the three-month period ended February 29, 2008, and February 28, 2007, \$1,096,000 and \$0 of restricted cash from a government grant were recognized as a contra-expense, respectively, and no funds for either period were recognized as a reduction in the asset carrying value. For the nine-month period ended February 29, 2008, and February 28, 2007, \$2,832,000 and \$1,009,000 of restricted cash from a government grant were recognized as a contra-expense, respectively, and \$187,000 and \$0 funds were recognized as a reduction in the asset carrying value, respectively.

## **(6) MARKETABLE SECURITIES**

The Company, at February 29, 2008, is invested in high grade commercial paper and short term certificates of deposit. The Company has the intent and ability to hold these securities until maturity and all securities have a maturity of four months or less.

The fair market value of the Company's marketable securities was \$9,962,246 at February 29, 2008, which included gross unrealized holding losses of \$778. The fair market value of the Company's marketable securities was \$16,934,479 at May 31, 2007, which included gross unrealized holding gains of \$275. All of these marketable securities are scheduled to mature in less than four months.

## **(7) 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.

## **(8) INCOME TAXES**

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48) in the first quarter of fiscal 2008. At the adoption date and as of February 29, 2008, the Company had no material unrecognized tax benefits and no adjustments to liabilities, retained earnings, loss from continuing operations, or net loss were required. It is the Company's policy to include interest and/or penalties related to uncertain tax positions in income tax expense. No interest and/or penalties were recognized upon FIN 48 adoption. Tax years 1992 through 2006 remain open to examination by the major taxing jurisdictions to which the Company reports. The adoption of FIN 48 had no effect on the Company's basic and diluted earnings per share.

## **(9) LEGAL PROCEEDINGS**

On March 17, 2006 and May 15, 2006, ten separate complaints were filed, each purporting to be on behalf of a class of the Company's shareholders, against the Company and Dr. Steven A. Gould, the Company's Chief Executive Officer, and Richard DeWoskin, the Company's former Chief Executive Officer. Those putative class actions were 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 alleged, 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 the Company'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 there under and Section 20(a) of the Exchange Act. Plaintiffs alleged that those allegedly false and misleading statements and omissions caused the purported class to purchase the Company's common stock at artificially inflated prices. As relief, the complaint sought, 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 Company and the individual defendants filed a motion to dismiss the complaint, and on September 25, 2007, the court granted that motion, finding that the plaintiffs failed to state a claim. The court dismissed the complaint without prejudice and on November 20, 2007, the plaintiffs filed a Consolidated Second Amended Class Action Complaint. On January 22, 2008, the Company filed a motion to dismiss and that motion currently is being briefed by the parties. The putative class action is at an early stage and it is not possible to predict the outcome.

On March 13, 2006, the SEC notified the Company that it was conducting an informal inquiry, and requested that the Company voluntarily provide the SEC with certain categories of documents from 1998 to 2006 primarily relating to the Company's public disclosures concerning the clinical development of PolyHeme. The SEC then sent the Company additional requests for documents and information, and modified its initial requests. The Company cooperated with the SEC, and on August 21, 2007, the SEC informed the Company that it has completed its investigation and does not intend to recommend any enforcement action against the Company.

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

produced documents to the Committee, and the Committee requested additional documents which were also provided.

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On September 11, 2007, the Company received a second letter from Senator Charles E. Grassley, Ranking Member of the Senate Finance Committee, requesting that the Company provide additional information to the Committee. The Company has complied with that request.

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

### **RECENT DEVELOPMENTS**

We are presently preparing a Biologics License Application, or BLA, for our PolyHeme® red blood cell substitute, for submission to the Food and Drug Administration, or FDA. We expect to submit the BLA to FDA this summer, most likely sometime in the third calendar quarter of the year. We also plan to submit a request for priority review of our BLA. We believe PolyHeme satisfies the stated criteria for priority review based on its potential to address an unmet medical need. We will also be participating in the FDA/NIH Workshop, Hemoglobin-Based Oxygen Carriers: Current Status and Future Directions, on April 29-30, 2008.

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 29, 2008, we have incurred operating losses totaling \$214,465,000.

We will be required to prepare and submit a 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 PolyHeme. The costs incurred by Northfield to date and during each period presented 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 assure that we will be able to achieve these goals or that we will be able to realize product revenues or profitability on a sustained basis or at all.

### **RESULTS OF OPERATIONS**

We reported no revenues for the three and nine month periods ended February 29, 2008 or February 28, 2007. From Northfield's inception through February 29, 2008, 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 29, 2008 totaled \$5,151,000, a decrease of \$1,595,000 from the \$6,746,000 reported in the third quarter of fiscal 2007. Measured on a percentage basis, third quarter fiscal 2008 operating expenses were less than third quarter fiscal 2007 expenses by 23.7%. The decrease was primarily driven by a reduction in spending for site-related clinical expenses in connection with our Phase III trial, which completed patient enrollment in the first fiscal quarter of 2007. The decrease is also driven by government grant funding used to offset the cost of specified operating activities and a reduction in process development costs.

Research and development expenses during the third quarter of fiscal 2008 totaled \$3,670,000, a decrease from the \$4,476,000 reported in the third quarter of fiscal 2007. The decrease was primarily driven by a reduction in spending for site-related clinical expenses in connection with our Phase III trial. The decrease is also driven by \$1,096,000 in government grant funding used to offset the cost of specified operating activities at our manufacturing facility in preparation for FDA review and a reduction in process development costs.

We anticipate a continued high level of research and development spending for the remainder of fiscal 2008. We continue the significant task of data verification, assembly, analysis and report preparation for FDA. BLA preparation work will continue through fiscal 2008. 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 will continue the use of external resources to complete the tasks in a timely manner.



General and administrative expenses in the third quarter of fiscal 2008 totaled \$1,481,000, which is a decrease of \$789,000, or 34.8%, from the \$2,270,000 of general and administrative expenses reported in the third quarter of fiscal 2007. The decreased expenses were primarily due to a reduction in professional service fees related to our ongoing legal proceedings. We have reached the retention level on our insurance policy covering our current civil litigation and we expect all further expenses relating to this litigation to be fully covered by our insurance policies, subject to applicable policy limits. This decrease was also driven by a reduction in share-based compensation.

Operating expenses for the nine-month period ended February 29, 2008 totaled \$15,860,000, a decrease of \$7,602,000 from the \$23,462,000 reported for the nine-months ended February 28, 2007. The percentage decrease was equal to 32.4%. The decrease was primarily driven by a reduction in spending for site-related clinical expenses in connection with our Phase III trial, which completed patient enrollment in the first fiscal quarter of 2007. The decrease is also driven by government grant funding used to offset the cost of specified operating activities and a reduction in process development costs.

Research and development expenses during the nine-months ended February 29, 2008 totaled \$11,388,000, a decrease from the \$15,928,000 reported in the nine-months ended February 28, 2007. The decrease was primarily driven by a reduction in spending for site-related clinical expenses in connection with our Phase III trial. The decrease is also driven by \$2,800,000 in government grant funding used to offset the cost of specified operating activities at our manufacturing facility in preparation for FDA review and a reduction in process development costs.

General and administrative expenses for the nine-months ended February 29, 2008 totaled \$4,473,000, which is a decrease of \$3,062,000, or 40.6%, from the \$7,535,000 of general and administrative expenses reported for the nine-months ended February 28, 2007. The decreased expenses were primarily due to a reduction in professional service fees related to our ongoing legal proceedings. We have reached the retention level on our insurance policy covering our current civil litigation and we expect all further expenses relating to this litigation to be fully covered by our insurance policies, subject to applicable policy limits. This decrease was also driven by a reduction in share-based compensation.

#### **INTEREST INCOME**

Interest income for the three-month period ended February 29, 2008 totaled \$319,000, a decrease of \$316,000 from the \$635,000 in interest income reported in the three-month period ended February 28, 2007. We had a lower level of cash and marketable securities available to invest during the current fiscal quarter.

Interest income for the nine-month period ended February 29, 2008 totaled \$1,203,000, a decrease of \$982,000 from the \$2,185,000 in interest income reported in the nine-month period ended February 28, 2007. We had a significantly lower level of cash and marketable securities available to invest during the current fiscal year.

#### **NET LOSS**

Our net loss for the three-month period ended February 29, 2008 totaled \$4,831,000, or \$0.18 per share, compared to a net loss of \$6,112,000, or \$0.23 per share, for the three-month period ended February 28, 2007. In dollar terms, the loss decreased by \$1,281,000, or 21.0%. The decrease was driven by a reduction in spending for site-related clinical expenses in connection with our Phase III trial. The decrease is also driven by \$1,096,000 in government grant funding used to offset the cost of specified operating activities at our manufacturing facility in preparation for FDA review, a reduction in legal expenses and a reduction in process development costs.

Our net loss for the nine-month period ended February 29, 2008 totaled \$14,657,000, or \$0.54 per share, compared to a net loss of \$21,277,000, or \$0.79 per share, for the nine-month period ended February 28, 2007. In dollar terms, the loss decreased by \$6,620,000, or 31.1%. The decrease was primarily driven by a reduction in spending for site-related clinical expenses in connection with our Phase III trial. The decrease is also driven by \$2,800,000 in government grant funding used to offset the cost of operating activities at our manufacturing facility in preparation for FDA review. Additionally, the decrease was driven by a reduction in process development costs, professional service fees and share-based compensation expense.

#### **LIQUIDITY AND CAPITAL RESOURCES**

From Northfield's inception through February 29, 2008, we have used cash in operating activities and for the purchase of property, plant, equipment and engineering services in the amount of \$217,702,000. For the nine months ended February 29, 2008 and February



28, 2007, these cash expenditures totaled \$14,117,000 and \$27,959,000, respectively. The previous fiscal year nine-month cash utilization reflects the purchase of our previously leased manufacturing facility for \$6,731,000.

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 29, 2008, we had cash, restricted cash and marketable securities totaling \$27,078,000. As previously reported, we have been successful in securing a \$1,400,000 federal appropriation as part of the Defense Appropriation Bill in 2005 and a \$3,500,000 federal appropriation as part of the Fiscal 2006 Defense Appropriation Bill. As of February 29, 2008, we have received all of these funds.

We are currently utilizing our cash resources at a rate of approximately \$24 million per year. We anticipate maintaining spending at this rate through the submission and review of our BLA. No significant capital expenditures are planned for the near term.

Based on our current estimates, we believe our existing capital resources should be sufficient to permit us to conduct our operations, including the preparation and submission of a BLA to FDA, for approximately 12 to 14 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 sufficient resources to fund these activities.

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 BLA submission to FDA, 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 29, 2008, we have recorded a 100% valuation allowance against our net deferred tax assets.

#### **CONTRACTUAL OBLIGATIONS**

The following table reflects a summary of our contractual cash obligations as of February 29, 2008:

		<b>LESS THAN</b>	
	<b>TOTAL</b>	<b>ONE YEAR</b>	<b>1-3 YEARS</b>
<b>Contractual Obligations</b>			
Lease Obligations (1)	\$ 458,495	\$ 458,495	\$
Other Obligations (2)	\$ 1,776,900	\$ 1,776,900	
<b>Total Contractual Cash Obligation</b>	<b>\$ 2,235,395</b>	<b>\$ 2,235,395</b>	<b>\$</b>



- (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 three 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

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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.

**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. We also invest in commercial paper which is shown as marketable securities. 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 \$27,078,000 at February 29, 2008 would decrease interest income by \$271,000 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.

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**Part II**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings.**

On March 17, 2006 and May 15, 2006, ten separate complaints were filed, each purporting to be on behalf of a class of the Company's shareholders, against the Company and Dr. Steven A. Gould, the Company's Chief Executive Officer, and Richard DeWoskin, the Company's former Chief Executive Officer. Those putative class actions were 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 alleged, 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 the Company'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 there under and Section 20(a) of the Exchange Act. Plaintiffs alleged that those allegedly false and misleading statements and omissions caused the purported class to purchase the Company common stock at artificially inflated prices. As relief, the complaint sought, 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 Company and the individual defendants filed a motion to dismiss the complaint, and on September 25, 2007, the court granted that motion, finding that the plaintiffs failed to state a claim. The court dismissed the complaint without prejudice and on November 20, 2007, the plaintiffs filed a Consolidated Second Amended Class Action Complaint. On January 22, 2008, the Company filed a motion to dismiss and that motion currently is being briefed by the parties. The putative class action is at an early stage and it is not possible to predict the outcome.

On March 13, 2006, the SEC notified the Company that it was conducting an informal inquiry, and requested that the Company voluntarily provide the SEC with certain categories of documents from 1998 to 2006 primarily relating to the Company's public disclosures concerning the clinical development of PolyHeme. The SEC then sent the Company additional requests for documents and information, and modified its initial requests. The Company cooperated with the SEC, and on August 21, 2007, the SEC informed the Company that it has completed its investigation and does not intend to recommend any enforcement action against the Company.

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

On September 11, 2007, the Company received a second letter from Senator Charles E. Grassley, Ranking Member of the Senate Finance Committee, requesting that the Company provide additional information to the Committee. The Company has complied with that request.

**Item 1A. Risk Factors.**

**The following risk factor should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended May 31, 2007, including the other risk factors identified within the Annual Report.**

**Our financial resources are limited and we will need to raise additional capital in the future to continue our business.**

As of February 29, 2008, we had cash and cash equivalents of approximately \$27 million. We are currently utilizing our cash resources at a rate of approximately \$24 million per year, and we expect to maintain this rate of cash utilization through the submission of our BLA to FDA. We anticipate that our existing financial resources will be adequate to permit us to continue to conduct our business only for the next 12 to 14 months. We will need to raise additional capital to continue our business after this period. Our future capital requirements will depend on many factors, including the timing and outcome of regulatory reviews, administrative and legal expenses, the status of competitive products, the establishment of manufacturing capacity and the establishment of collaborative relationships. We cannot ensure that additional funding will be available or, if it is available, that it can be obtained on terms and conditions we will deem acceptable. Any additional funding derived from the sale of equity securities is likely to result in significant dilution to our existing stockholders. If we do not raise significant additional capital

during our current fiscal year ending May 31, 2008, the opinion of our independent accountants with respect to our audited financial statements is likely to include an explanatory paragraph regarding the continuation of our company as a going concern. In addition, we are subject to a putative class action lawsuit alleging violations of the federal securities laws and we also have received separate requests from both

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the SEC and the Senate Committee on Finance asking us voluntarily to provide certain information. These matters involve risks and uncertainties that may prevent us from raising additional capital or may cause the terms upon which we raise additional capital, if additional capital is available, to be less favorable to us than would otherwise be the case.

<b>Exhibit</b>	<b>Description</b>
15	Letter re: Unaudited Interim Financial Information
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**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, 2008.

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