MFS INTERMEDIATE INCOME TRUST
Form N-CSRS
June 21, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF

REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-05440

MFS INTERMEDIATE INCOME TRUST

(Exact name of registrant as specified in charter)

111 Huntington Avenue, Boston, Massachusetts 02199

(Address of principal executive offices) (Zip code)

Christopher R. Bohane

Massachusetts Financial Services Company

111 Huntington Avenue

Boston, Massachusetts 02199

(Name and address of agents for service)

Registrant s telephone number, including area code: (617) 954-5000

Date of fiscal year end: October 31

Date of reporting period: April 30, 2018

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ITEM 1. REPORTS TO STOCKHOLDERS.

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Semiannual Report

April 30, 2018

MFS® Intermediate Income Trust

MIN-SEM

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MANAGED DISTRIBUTION POLICY DISCLOSURE

The MFS Intermediate Income Trust s (the fund) Board of Trustees adopted a managed distribution policy. The fund seeks to pay monthly distributions based on an annual rate of 8.50% of the fund s average monthly net asset value. The primary purpose of the managed distribution policy is to provide shareholders with a constant, but not guaranteed, fixed minimum rate of distribution each month. You should not draw any conclusions about the fund s investment performance from the amount of the current distribution or from the terms of the fund s managed distribution policy. The Board may amend or terminate the managed distribution policy at any time without prior notice to fund shareholders. The amendment or termination of the managed distribution policy could have an adverse effect on the market price of the fund s shares.

With each distribution, the fund will issue a notice to shareholders and an accompanying press release which will provide detailed information regarding the amount and composition of the distribution and other related information. The amounts and sources of distributions reported in the notice to shareholders are only estimates and are not being provided for tax reporting purposes. The actual amounts and sources of the amounts for tax reporting purposes will depend upon the fund s investment experience during the remainder of its fiscal year and may be subject to changes based on tax regulations. The fund will send you a Form 1099-DIV for the calendar year that will tell you how to report these distributions for federal income tax purposes. Please refer to Tax Matters and Distributions under Note 2 of the Notes to Financial Statements for information regarding the tax character of the fund s distributions.

Under a managed distribution policy the fund may at times distribute more than its net investment income and net realized capital gains; therefore, a portion of your distribution may result in a return of capital. A return of capital may occur, for example, when some or all of the money that you invested in the fund is paid back to you. Any such returns of capital will decrease the fund s total assets and, therefore, could have the effect of increasing the fund s expense ratio. In addition, in order to make the level of distributions called for under its managed distribution policy, the fund may have to sell portfolio securities at a less than opportune time. A return of capital does not necessarily reflect the fund s investment performance and should not be confused with yield or income . The fund s total return in relation to changes in net asset value is presented in the Financial Highlights.

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MFS® Intermediate Income Trust

New York Stock Exchange Symbol: **MIN**

NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

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LETTER FROM THE EXECUTIVE CHAIRMAN

Dear Shareholders:

Rising bond yields have led to a measurable uptick in market volatility a departure from the low-volatility environment that prevailed for much of 2017. In recent months,

against this backdrop, global markets have given back some of the strong gains recorded during 2017 and early 2018. Global economic growth remains robust, notwithstanding signs of a modest slowdown over the past few months, particularly in Europe.

Although the U.S. Federal Reserve continues to gradually raise interest rates and shrink its balance sheet, monetary policy remains accommodative around the world, with many central banks taking only tentative steps toward tighter policies. Newly enacted U.S. tax reforms have been welcomed by equity markets, while emerging market economies have benefited from a weaker U.S. dollar.

Around the world, inflation remains largely subdued, but tight labor markets and solid global demand have investors on the lookout for its potential resurgence. Increased U.S. protectionism is also a growing concern, as investors fear that trade friction could disrupt the synchronized rise in global growth.

As a global investment manager, MFS® strives to create long-term value and protect capital for clients through an active approach and an investment platform built on nearly a century of expertise. To make that long-term value meaningful for clients, we work to align with you on our beliefs, your needs and the time it takes to deliver on your desired outcomes.

Respectfully,

Robert J. Manning

Executive Chairman

MFS Investment Management

June 18, 2018

The opinions expressed in this letter are subject to change and may not be relied upon for investment advice. No forecasts can be guaranteed.

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PORTFOLIO COMPOSITION

Portfolio structure (i)

Fixed income sectors (i)	
Investment Grade Corporates	43.4%
U.S. Treasury Securities	38.9%
Emerging Markets Bonds	3.4%
Asset-Backed Securities	3.0%
Commercial Mortgage-Backed Securities	1.6%
Mortgage-Backed Securities	1.5%
Collateralized Debt Obligations	1.2%
Non-U.S. Government Bonds	1.2%
Municipal Bonds	1.0%
High Yield Corporates	0.9%
U.S. Government Agencies	0.7%
Residential Mortgage-Backed Securities	0.6%
Composition including fixed income credit quality (a)(i)	
AAA	6.8%
AA	3.6%
A	18.8%
BBB	25.9%
BB	0.9%
CC (o)	0.0%
D	0.3%
U.S. Government	38.9%
Federal Agencies	2.2%
Cash & Cash Equivalents	2.6%

Portfolio facts (i)	
Average Duration (d)	3.8
Average Effective Maturity (m)	4.6 yrs.

(a) For all securities other than those specifically described below, ratings are assigned to underlying securities utilizing ratings from Moody s, Fitch, and Standard & Poor s rating agencies and applying the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). Securities rated BBB or higher are considered investment grade. All ratings are subject to change. U.S. Government includes securities issued by the U.S. Department of the Treasury. Federal Agencies includes rated and unrated U.S. Agency fixed-income securities, U.S. Agency mortgage-backed securities, and collateralized mortgage obligations of U.S. Agency mortgage-backed securities. Not Rated includes fixed income securities and fixed income futures contracts, which have not been rated by any rating agency. The fund may or may not have held all of these instruments on this date. The fund is not rated by these agencies.

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Portfolio Composition continued

(d) Duration is a measure of how much a bond s price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value due to the interest rate move.
(i) For purposes of this presentation, the components include the value of securities, and reflect the impact of the equivalent exposure of derivative positions, if any. These amounts may be negative from time to time. Equivalent exposure is a calculated amount that translates the derivative position into a reasonable approximation of the amount of the underlying asset that the portfolio would have to hold at a given point in time to have the same price sensitivity that results from the portfolio s ownership of the derivative contract. When dealing with derivatives, equivalent exposure is a more representative measure of the potential impact of a position on portfolio performance than value. The bond component will include any accrued interest amounts.
(m) In determining each instrument s effective maturity for purposes of calculating the fund s dollar-weighted average effective maturity, MFS uses the instrument s stated maturity or, if applicable, an earlier date on which MFS believes it is probable that a maturity-shortening device (such as a put, pre-refunding or prepayment) will cause the instrument to be repaid. Such an earlier date can be substantially shorter than the instrument s stated maturity.
(o) Less than 0.1%.

Where the fund holds convertible bonds, they are treated as part of the equity portion of the portfolio.

Cash & Cash Equivalents includes any cash, investments in money market funds, short-term securities, and other assets less liabilities. Please see the Statement of Assets and Liabilities for additional information related to the fund s cash position and other assets and liabilities.

Percentages are based on net assets as of April 30, 2018.

The portfolio is actively managed and current holdings may be different.

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PORTFOLIO MANAGERS PROFILES

Portfolio Manager	Primary Role	Since	Title and Five Year History
Geoffrey Schechter	Lead Portfolio Manager	2017	Investment Officer of MFS; employed in the investment management area of MFS since 1993.
Alexander Mackey	Investment Grade Debt Instruments Portfolio Manager	2017	Investment Officer of MFS: employed in the investment management area of MFS since 2001.

Note to Shareholders: Effective November 1, 2017, Erik Weisman is no longer a Portfolio Manager of the Fund.

OTHER NOTES

The fund s shares may trade at a discount or premium to net asset value. When fund

shares trade at a premium, buyers pay more than the net asset value underlying fund shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the fund s concurrent liquidation.

The fund s monthly distributions may include a return of capital to shareholders to the extent that the fund s net investment income and net capital gains, determined in accordance with federal income tax regulations, are insufficient to meet the fund s target annual distribution rate. Distributions that are treated for federal income tax purposes as a return of capital will reduce each shareholder s basis in his or her shares and, to the extent the return of capital exceeds such basis, will be treated as gain to the shareholder from a sale of shares. It may also result in a recharacterization of what economically represents a return of capital to ordinary income in those situations where a fund has long term capital gains and a capital loss carryforward. Returns of shareholder capital may have the effect of reducing the fund s assets and increasing the fund s expense ratio.

The fund s target annual distribution rate is calculated based on an annual rate of 8.50% of the fund s average monthly net asset value, not a fixed share price, and the fund s dividend amount will fluctuate with changes in the fund s average monthly net assets.

In accordance with Section 23(c) of the Investment Company Act of 1940, the fund hereby gives notice that it may from time to time repurchase shares of the fund in the open market at the option of the Board of Trustees and on such terms as the Trustees shall determine.

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PORTFOLIO OF INVESTMENTS

4/30/18 (unaudited)

The Portfolio of Investments is a complete list of all securities owned by your fund. It is categorized by broad-based asset classes.

Bonds - 96.7%		
Issuer	**Shares/Par**	**Value ($)**
Asset-Backed & Securitized - 6.4%		
ARI Fleet Lease Trust, 2016-A, A2 , 1.82%, 7/15/2024 (n)	$ 93,360	$ 93,182
Calvary CLO III Ltd., FLR, 3.198% (LIBOR-3mo. + 8.5%), 10/15/2026 (n)	1,998,000	1,997,227
Capital One Multi-Asset Execution Trust, 2016-A4, A4 , 1.33%, 6/15/2022	1,440,000	1,414,543
Chesapeake Funding II LLC, 2016-1A, A2 , FLR, 3.043% (LIBOR-1mo. + 1.15%), 3/15/2028 (n)	748,355	750,929
Chesapeake Funding II LLC, 2017-3A, A2 , FLR, 2.237% (LIBOR-1mo. + 0.34%), 8/15/2029 (n)	4,826,497	4,827,611
Colony Starwood Homes, 2016-2A, A , FLR, 3.147% (LIBOR-1mo. + 1.25%), 12/17/2033 (n)	1,863,189	1,877,493
Commercial Mortgage Trust, 2017-COR2, A3 , 3.51%, 9/10/2050	1,676,352	1,645,590
Credit Acceptance Auto Loan Trust, 2015-2A, A , 2.4%, 2/15/2023 (n)	504,782	504,671
Dryden Senior Loan Fund, 2014-34A, CR , CLO, FLR, 4.498% (LIBOR-3mo. + 2.15%), 10/15/2026 (n)	824,972	829,171
Enterprise Fleet Financing LLC, 2017-1, A2 , 2.13%, 7/20/2022 (n)	701,779	698,035
Exeter Automobile Receivables Trust, 2017-1A, A , 1.96%, 3/15/2021 (n)	257,672	256,903
Falcon Franchise Loan LLC, 7.966%, 1/05/2023 (i)(z)	157,138	6,180
Flagship Credit Auto Trust, 2016-1, A , 2.77%, 12/15/2020 (n)	114,267	114,294
Ford Credit Auto Owner Trust, 2014-1, A , 2.26%, 11/15/2025 (n)	339,000	337,353
Ford Credit Auto Owner Trust, 2014-2, A , 2.31%, 4/15/2026 (n)	1,247,000	1,237,799
GMF Floorplan Owner Revolving Trust, 2017-A1, A , 2.22%, 1/18/2022 (n)	1,290,000	1,274,026
GS Mortgage Securities Corp., 4.592%, 8/10/2043 (n)	2,570,000	2,642,438
Hertz Fleet Lease Funding LP, 2016-1, A2 , 1.96%, 4/10/2030 (n)	646,217	646,224
JPMorgan Chase & Co., 4.717%, 2/15/2046 (n)	2,499,789	2,587,448
Loomis, Sayles & Co., 2015-2A, A1R , FLR, 3.253% (LIBOR-3mo. + 0.9%), 4/15/2028 (n)	1,117,883	1,117,883
Shackleton CLO Ltd., 2015-8A, A1R , FLR, 3.279% (LIBOR-3mo. + 1.51%), 10/20/2027 (n)	1,998,000	1,998,382
Sierra Receivables Funding Co. LLC, 2015-1A, A , 2.4%, 3/22/2032 (n)	408,343	404,863
SPS Servicer Advance Receivables Trust, 2016-T1, AT1 , 2.53%, 11/16/2048 (n)	2,360,000	2,355,575
Tricon American Homes 2015-SFR1, Trust 1A , 2.589%, 11/17/2033 (n)	1,298,957	1,258,772

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Asset-Backed & Securitized - continued		
UBS Commercial Mortgage Trust 2017-C1, A4 , 3.544%, 11/15/2050	$ 875,000	$ 857,973
		$ 31,734,565
Automotive - 1.2%		
BMW US Capital LLC, 3.1%, 4/12/2021 (n)	$ 1,770,000	$ 1,765,060
General Motors Financial Co., Inc., 3.95%, 4/13/2024	4,000,000	3,925,842
		$ 5,690,902
Broadcasting - 0.2%		
Time Warner, Inc., 3.8%, 2/15/2027	$ 1,231,000	$ 1,191,200
Building - 0.6%		
Martin Marietta Materials, Inc., 3.5%, 12/15/2027	$ 2,946,000	$ 2,763,395
Business Services - 0.2%		
Fidelity National Information Services, Inc., 5%, 10/15/2025	$ 751,000	$ 792,962
Cable TV - 1.4%		
Charter Communications Operating LLC/Charter Communications Operating Capital Corp., 4.908%, 7/23/2025	$ 1,350,000	$ 1,371,697
Cox Communications, Inc., 3.25%, 12/15/2022 (n)	2,925,000	2,852,549
Time Warner Cable, Inc., 4%, 9/01/2021	2,770,000	2,778,693
		$ 7,002,939
Chemicals - 1.4%		
Dow Chemical Co., 8.55%, 5/15/2019	$ 2,490,000	$ 2,636,750
LyondellBasell Industries N.V., 5%, 4/15/2019	336,000	340,852
Sherwin-Williams Co., 3.125%, 6/01/2024	4,000,000	3,837,971
		$ 6,815,573
Computer Software - 0.8%		
Diamond 1 Finance Corp./Diamond 2 Finance Corp., 3.48%, 6/01/2019 (n)	$ 1,140,000	$ 1,142,556
Microsoft Corp., 3.125%, 11/03/2025	3,110,000	3,027,108
		$ 4,169,664
Computer Software - Systems - 0.5%		
Apple, Inc., 3.35%, 2/09/2027	$ 2,700,000	$ 2,642,347
Conglomerates - 0.1%		
Roper Technologies, Inc., 2.8%, 12/15/2021	$ 651,000	$ 636,407

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Consumer Products - 1.2%		
Reckitt Benckiser Treasury Services PLC, 3.625%, 9/21/2023 (n)	$ 2,274,000	$ 2,264,619
Reckitt Benckiser Treasury Services PLC, 2.75%, 6/26/2024 (n)	4,000,000	3,780,713
		$ 6,045,332
Consumer Services - 0.8%		
Alibaba Group Holding Ltd., 2.8%, 6/06/2023	$ 1,605,000	$ 1,542,186
Priceline Group, Inc., 3.55%, 3/15/2028	2,737,000	2,603,987
		$ 4,146,173
Defense Electronics - 0.3%		
BAE Systems Holdings, Inc., 6.375%, 6/01/2019 (n)	$ 1,400,000	$ 1,450,524
Electrical Equipment - 0.3%		
Molex Electronic Technologies LLC, 2.878%, 4/15/2020 (n)	$ 1,703,000	$ 1,686,185
Emerging Market Quasi-Sovereign - 1.1%		
Corporacion Financiera de Desarrollo S.A., 3.25%, 7/15/2019 (n)	$ 1,337,000	$ 1,337,000
Corporacion Financiera de Desarrollo S.A., 4.75%, 2/08/2022 (n)	228,000	233,082
Petroleos Mexicanos, 6%, 3/05/2020	1,890,000	1,960,875
Sinopec Capital (2013) Ltd., 3.125%, 4/24/2023 (n)	733,000	704,731
State Grid International Development Co. Ltd., 1.75%, 5/22/2018 (n)	1,330,000	1,329,158
		$ 5,564,846
Emerging Market Sovereign - 0.2%		
Republic of Poland, 5%, 3/23/2022	$ 772,000	$ 819,123
Energy - Integrated - 0.6%		
BP Capital Markets PLC, 4.5%, 10/01/2020	$ 853,000	$ 883,007
BP Capital Markets PLC, 4.742%, 3/11/2021	1,810,000	1,892,301
		$ 2,775,308
Food & Beverages - 2.9%		
Anheuser-Busch InBev Finance, Inc., 2.65%, 2/01/2021	$ 6,000,000	$ 5,930,388
Anheuser-Busch InBev Worldwide, Inc., 3.3%, 2/01/2023	2,308,000	2,289,403
General Mills, Inc., 3.2%, 4/16/2021	592,000	591,760
Kraft Heinz Foods Co., 6.125%, 8/23/2018	2,380,000	2,405,802
Want Want China Finance Co., 1.875%, 5/14/2018 (n)	1,430,000	1,429,431
Wm. Wrigley Jr. Co., 3.375%, 10/21/2020 (n)	1,876,000	1,886,415
		$ 14,533,199
Insurance - 1.4%		
American International Group, Inc., 3.75%, 7/10/2025	$ 2,808,000	$ 2,749,988
American International Group, Inc., 3.9%, 4/01/2026	2,850,000	2,786,577
Metropolitan Life Global Funding I, 2%, 4/14/2020 (n)	1,600,000	1,572,332
		$ 7,108,897

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Insurance - Property & Casualty - 0.6%		
Allied World Assurance Co. Holdings Ltd., 4.35%, 10/29/2025	$ 3,110,000	$ 3,042,012
International Market Quasi-Sovereign - 1.2%		
Dexia Credit Local S.A., 2.25%, 1/30/2019 (n)	$ 3,280,000	$ 3,271,833
Dexia Credit Local S.A., 1.875%, 9/15/2021 (n)	2,510,000	2,413,428
		$ 5,685,261
Internet - 0.6%		
Baidu, Inc., 2.75%, 6/09/2019	$ 1,510,000	$ 1,501,814
Baidu, Inc., 3.875%, 9/29/2023	1,361,000	1,349,694
		$ 2,851,508
Machinery & Tools - 0.6%		
CNH Industrial Capital LLC, 3.85%, 11/15/2027	$ 3,066,000	$ 2,932,923
Major Banks - 12.5%		
Bank of America Corp., 2.151%, 11/09/2020	$ 750,000	$ 732,214
Bank of America Corp., 3.124% to 1/20/2022, FLR to 1/20/2023	5,400,000	5,315,562
Bank of America Corp., 4.125%, 1/22/2024	2,876,000	2,943,957
Bank of New York Mellon Corp., 3.5%, 4/28/2023	3,446,000	3,450,275
Barclays PLC, 3.25%, 1/12/2021	3,848,000	3,813,226
Commonwealth Bank of Australia, 5%, 10/15/2019 (n)	2,560,000	2,631,313
Credit Suisse Group AG, 3.574%, 1/09/2023 (n)	1,500,000	1,479,438
Credit Suisse Group AG, 6.5%, 8/08/2023 (n)	915,000	990,487
Credit Suisse Group AG, 3.869%, 1/12/2029 (n)	2,076,000	1,971,989
Goldman Sachs Group, Inc., 2%, 4/25/2019	260,000	258,370
Goldman Sachs Group, Inc., 5.75%, 1/24/2022	1,924,000	2,070,529
Goldman Sachs Group, Inc., 3%, 4/26/2022	1,720,000	1,680,983
Goldman Sachs Group, Inc., 2.908% to 6/05/2022, FLR to 6/05/2023	1,750,000	1,692,100
HSBC Holdings PLC, 3.262% to 3/13/2022, FLR to 3/13/2023	4,000,000	3,935,583
HSBC Holdings PLC, 3.033% to 3/13/2022, FLR to 11/22/2023	1,500,000	1,458,091
ING Bank N.V., 5.8%, 9/25/2023 (n)	2,912,000	3,130,368
JPMorgan Chase & Co., 2.2%, 10/22/2019	2,090,000	2,071,046
JPMorgan Chase & Co., 4.625%, 5/10/2021	2,890,000	3,002,830
Lloyds Bank PLC, 3.75%, 1/11/2027	1,400,000	1,339,303
Mitsubishi UFJ Financial Group, Inc., 2.95%, 3/01/2021	656,000	650,004
Morgan Stanley, 5.625%, 9/23/2019	640,000	662,587
Morgan Stanley, 3.7%, 10/23/2024	1,816,000	1,792,678
Morgan Stanley, 3.875%, 1/27/2026	5,400,000	5,322,192
Skandinaviska Enskilda Banken AB, 2.45%, 5/27/2020 (n)	1,810,000	1,783,194
Sumitomo Mitsui Financial Group, Inc., 3.102%, 1/17/2023	1,145,000	1,116,749
UBS Group Funding (Switzerland) AG, 4.253%, 3/23/2028 (n)	2,449,000	2,434,265
UBS Group Funding Ltd., 3%, 4/15/2021 (n)	2,505,000	2,472,016

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Major Banks - continued		
UBS Group Funding Ltd., FLR, 3.726% (LIBOR-3mo. + 1.44%), 9/24/2020 (n)	$ 1,680,000	$ 1,720,389
		$ 61,921,738
Medical & Health Technology & Services - 1.2%		
CVS Health Corp., 3.7%, 3/09/2023	$ 741,000	$ 736,990
CVS Health Corp., 4.1%, 3/25/2025	3,000,000	2,989,204
Laboratory Corp. of America Holdings, 2.625%, 2/01/2020	2,120,000	2,100,674
		$ 5,826,868
Medical Equipment - 0.5%		
Abbott Laboratories, 3.4%, 11/30/2023	$ 2,285,000	$ 2,255,710
Metals & Mining - 1.6%		
Freeport-McMoRan Copper & Gold, Inc., 3.1%, 3/15/2020	$ 1,740,000	$ 1,718,250
Glencore Funding LLC, 4.125%, 5/30/2023 (n)	1,518,000	1,512,383
Glencore Funding LLC, 4%, 4/16/2025 (n)	880,000	856,503
Glencore Funding LLC, 3.875%, 10/27/2027 (n)	1,887,000	1,773,554
Kinross Gold Corp., 5.95%, 3/15/2024	1,897,000	1,977,623
		$ 7,838,313
Midstream - 1.4%		
Andeavor Logistics LP/Tesoro Logistics Finance Corp., 3.5%, 12/01/2022	$ 1,584,000	$ 1,558,297
Kinder Morgan Energy Partners LP, 3.5%, 3/01/2021	1,854,000	1,850,141
MPLX LP, 4%, 3/15/2028	3,395,000	3,266,446
		$ 6,674,884
Mortgage-Backed - 1.5%		
Fannie Mae, 2.247%, 5/25/2018	$ 19,481	$ 19,482
Fannie Mae, 4.5%, 3/01/2019	104,602	105,372
Fannie Mae, 5%, 5/01/2019 - 12/01/2020	30,646	31,158
Fannie Mae, 6.5%, 11/01/2031	831,234	926,050
Freddie Mac, 5%, 6/01/2019 - 6/01/2019	65,572	65,929
Freddie Mac, 5.5%, 11/01/2019 - 6/01/2020	184,684	187,530
Freddie Mac, 4.224%, 3/25/2020	2,239,065	2,289,693
Freddie Mac, 6%, 5/01/2021 - 8/01/2034	28,728	30,461
Freddie Mac, 3.064%, 8/25/2024	1,457,127	1,446,459
Freddie Mac, 3.243%, 4/25/2027	935,000	923,224
Freddie Mac, 3.187%, 9/25/2027	550,000	539,673
Ginnie Mae, 6%, 6/15/2033 - 10/15/2036	516,291	580,010
Ginnie Mae, 6.158%, 4/20/2058	50,698	53,911
		$ 7,198,952

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Portfolio of Investments (unaudited) continued

Issuer	Shares/Par	Value ($)
Bonds - continued		
Municipals - 1.0%		
New Jersey Economic Development Authority State Pension Funding Rev., Capital Appreciation, B , 0%, 2/15/2023	$ 3,704,000	$ 3,072,801
Puerto Rico Electric Power Authority Rev., RR , 5%, 7/01/2022	1,675,000	1,675,553
		$ 4,748,354
Network & Telecom - 1.3%		
AT&T, Inc., 3.4%, 5/15/2025	$ 5,400,000	$ 5,142,603
British Telecommunications PLC, 2.35%, 2/14/2019	1,330,000	1,324,473
		$ 6,467,076
Oils - 0.8%		
Andeavor, 3.8%, 4/01/2028	$ 985,000	$ 948,170
Marathon Petroleum Corp., 3.625%, 9/15/2024	1,003,000	985,343
Valero Energy Corp., 3.4%, 9/15/2026	2,353,000	2,249,585
		$ 4,183,098
Other Banks & Diversified Financials - 1.7%		
Citizens Bank N.A., 2.55%, 5/13/2021	$ 910,000	$ 890,350
Compass Bank, 2.875%, 6/29/2022	1,826,000	1,757,831
First Republic Bank, 2.375%, 6/17/2019	578,000	573,806
Groupe BPCE S.A., 12.5% to 9/30/2019, FLR to 8/29/2049 (n)	2,556,000	2,853,135
Lloyds Bank PLC, 2.3%, 11/27/2018	780,000	778,539
SunTrust Banks, Inc., 2.7%, 1/27/2022	1,803,000	1,755,820
		$ 8,609,481
Pharmaceuticals - 2.1%		
Actavis Funding SCS, 3.45%,	$ 3,000,000	$ 2,949,793

3/15/2022		
Celgene Corp., 2.75%, 2/15/2023	2,628,000	2,508,844
Celgene Corp., 3.25%, 2/20/2023	1,250,000	1,219,369
Gilead Sciences, Inc., 3.65%, 3/01/2026	3,740,000	3,698,910
		$ 10,376,916
Real Estate - Retail - 0.1%		
Kimco Realty Corp., REIT, 6.875%, 10/01/2019	$ 690,000	$ 724,516
Retailers - 0.5%		
Alimentation Couche-Tard, Inc., 2.7%, 7/26/2022 (n)	$ 2,700,000	$ 2,593,819
Supranational - 0.6%		
Corporacion Andina de Fomento, 4.375%, 6/15/2022	$ 2,950,000	$ 3,064,283
Telecommunications - Wireless - 1.4%		

				(20,321,456)		(20,321,456)	
Balance at May 31, 2005	$	26,752,739	$ 267,527	$	$	$ 240,997,444	$ (145,3
Amortization of deferred compensation							
Exercise of stock options at $7.13 and $10.66 per share		2,875	29			29,295	
Issuance of common stock to directors at $13.05 per share on September 29, 2005		5,750	57			74,943	
Issuance of common stock to director at $13.21 per share on October 3, 2005		1,135	12			14,988	
Issuance of common stock to director at $10.67 per share on February 24, 2006		1,406	14			14,986	

Exercise of stock options at $10.66, $5.15 and $11.09 per share		8,000	80			65,075	
Exercise of stock options at $10.66 and $7.13 per share		2,750	28			26,640	
Exercise of stock options at $5.15 and $7.13 per share		3,000	30			16,905	
Net loss							(26,7
Balance at May 31, 2006	$	26,777,655	$ 267,777	$	$	$ 241,240,276	$ (172,1
Eliminate remaining deferred compensation						(9,059)	
Exercise of stock options at $5.15 and $7.13 per share		2,750	28			17,105	
Exercise of stock options at $7.13 per share		750	7			5,348	
Issuance of common stock to directors at $13.03 per share on September 20, 2006		6,912	69			89,931	
Exercise of stock options at $11.44 per share		10,000	100			114,300	
Exercise of stock options at $5.15, $11.92 and $13.21 per share		3,125	31			24,646	
Exercise of stock options at $5.08 and $6.08 per share		15,000	150			81,050	
Exercise of stock options at $5.15 per share		3,000	30			15,420	

Exercise of stock options at $11.92 per share		375	4			4,466	
Exercise of warrants at $6.88 per share		96,974	969			666,211	
Share-based compenstion						2,655,849	
Net loss							(27,6
Balance at May 31, 2007	$	26,916,541	$ 269,165	$	$	$ 244,905,543	$ (199,8
Issuance of common stock to directors at $2.06 per share on September 25, 2007		43,692	437			89,563	
Share-based compenstion						1,959,269	
Net loss							(20,4
Balance at May 31, 2008	$	26,960,233	$ 269,602	$	$	$ 246,954,375	$ (220,2
Share-based compenstion						1,031,255	
Net loss							(11,5
Balance at November 30, 2008	$	26,960,233	$ 269,602	$	$	$ 247,985,630	$ (231,7

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 Cash Flows
Six months ended November 30, 2008 and November 30, 2007
and the cumulative period from June 19, 1985
(inception) through November 30, 2008

	Six months ended		Cumulative from June 19, 1985 through
	November 30, 2008	**November 30, 2007**	**November 30, 2008**
	(unaudited)	(unaudited)	(unaudited)
Cash flows from operating activities:			
Net loss	$ (11,515,551)	(9,826,165)	(231,732,045)
Adjustments to reconcile net loss to net cash used in operating activities:			
Marketable security amortization	(99,010)	(335,685)	(4,132,024)
Depreciation and amortization	337,419	324,954	20,411,561
Share-based compensation	1,031,255	1,176,218	9,887,397
Loss of sale of equipment	3,397		91,908
Changes in assets and liabilities:			
Restricted cash	224,167	(1,155,470)	982,379
Prepaid expenses	230,166	69,737	(675,298)
Other current assets	(305,948)	148,016	(2,202,199)
Other assets			55,791
Accounts payable	(445,611)	(2,259,895)	1,471,649
Accrued expenses	(40,088)	21,773	71,549
Government grant liability	(224,167)	1,155,470	(982,379)
Accrued compensation and benefits	51,902	95,220	709,914
Other current liabilities	305,948		313,379
Other liabilities	1,086	4,466	8,047
Net cash used in operating activities	(10,445,035)	(10,581,361)	(205,720,371)
Cash flows from investing activities:			
Purchase of property, plant, equipment, and capitalized engineering costs	(352,941)	(213,227)	(28,615,064)
Proceeds from sale of land and equipment			1,863,023
Proceeds from matured marketable securities	16,000,000	35,946,753	777,808,105
Proceeds from sale of marketable securities			7,141,656
Purchase of marketable securities	(12,918,843)	(28,865,348)	(785,821,200)
Net cash provided by (used in) investing activities	2,728,216	6,868,178	(27,623,480)

Cash flows from financing activities:			
Proceeds from issuance of common stock			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			238,373,572
Net increase (decrease) in cash	(7,716,819)	(3,713,183)	5,029,721
Cash at beginning of period	12,746,540	23,224,026	
Cash at end of period	$ 5,029,721	19,510,843	5,029,721
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.

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Northfield Laboratories Inc.
(a company in the development stage)
Notes to the Financial Statements
November 30, 2008
(unaudited)

(1) BASIS OF PRESENTATION

The accompanying interim financial statements of Northfield Laboratories, Inc. (the Company) 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, 2008.

(2) GOING CONCERN UNCERTAINTY

The financial statements of the Company have been presented based on the assumption that the Company will continue as a going concern. The Company, however, may not be able to continue as a going concern because it expects to experience significant future losses and currently has insufficient capital resources to fund its continuing operations. As of November 30, 2008, we had cash and cash equivalents, restricted cash and short term marketable securities of approximately $10.1 million. We are currently utilizing our cash resources at a rate of approximately $21.6 million per year, and we expect to maintain this rate of cash utilization through our third fiscal quarter. Based on our current estimates, we anticipate that our existing financial resources will be adequate to permit us to continue to conduct our business only for approximately 5 to 6 months from November 30, 2008. To continue operations beyond this point, we will either need to severely restrict our spending or raise additional capital. 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 will result in significant dilution to our existing stockholders.

There can be no assurance that the Company will have adequate capital resources to continue to operate through the remainder of our fiscal year, which ends on May 31, 2009. The Company s inability to raise sufficient levels of capital could materially delay or prevent the commercialization of its PolyHeme blood substitute product and could result in the cessation of the Company s business. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(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 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 where their effect is dilutive. Because we reported net losses for all periods presented, basic and diluted per share amounts are the same. As of November 30, 2008, we had 2,052,625 options and 58,632 warrants that were excluded from the net loss per share calculation because their inclusion would have been anti-dilutive.

(5) 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

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November 30, 2008, options to purchase a total of 45,000 shares of the Company s common stock at prices between $4.09 and $11.18 per share were outstanding under this plan. These options expire between 2011 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 November 30, 2008, options to purchase a total of 105,500 shares of the Company s common stock at prices between $10.66 and $15.41 were outstanding under this plan. These options expire between 2009 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 November 30, 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 under this plan. These options expire between 2011 and 2013, ten years after the date of grant.

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 November 30, 2008, options to purchase a total of 50,000 shares of the Company s common stock at prices between $3.62 and $18.55 per share were outstanding under this plan. 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 November 30, 2008, options to purchase a total of 1,576,500 shares of the Company s common stock at prices between $0.38 and $18.55 were outstanding under this plan. These options expire between 2013 and 2018, 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 to the Company officers on July 12, 2007 have a two year vesting period with shares vesting at a rate of 50% each year.

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

Compensation expense is measured based on the fair value of the award at the grant date and is recognized on a straight-line basis over the vesting term for share-based payments expected to vest. We estimate forfeitures at the date of grant based on our historical experience and future expectations.

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 the share-based compensation expenses on basic earnings per share for the three and six months ended November 30, 2008 was $0.01 and $0.04, respectively, and the related charge associated with share-based compensation expense recognized in the Statement of Operations for the three and six months ended November 30, 2008 was $388,000 and $1,031,000, respectively.

As of November 30, 2008, there was approximately $944,000 of total unrecognized compensation cost related to non-vested share-based compensation awards granted under the incentive plans. That cost is expected to be recognized over a weighted-average period of 0.98 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 six months ended November 30, 2008 and November 30, 2007.

	Three Months Ended	Six Months Ended

	November 30, 2008	**November 30, 2007**	**November 30, 2008**	**November 30, 2007**
Fair Value	$ 6,354	$ 98,800	$ 6,354	$ 681,500
Expected volatility	108.93%	96.47%	108.93%	95.9%
Risk-free interest rate	2.76%	4.22%	2.76%	4.82%
Dividend yield				
Expected lives	6.1 years	6.2 years	6.1 years	6.29 years

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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 the Company s 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 October 27, 2008, the Company issued 20,000 options to purchase shares of common stock to one employee at a price of $0.38 per share under the 2003 Equity Compensation Plan. The Company will expense the fair value of this share-based award over the vesting period of the options which is two years from the grant date.

The weighted average grant-date fair value of options granted during the three months ended November 30, 2008 and November 30, 2007 was $0.32 per share and $1.65 per share, respectively. The weighted average grant-date fair value of options granted during the six months ended November 30, 2008 and November 30, 2007 was $0.32 per share and $1.16 per share, respectively.

The following table summarizes the Company s option activity during the six months ended November 30, 2008:

	Shares	Range of Exercise Prices	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at May 31, 2008	2,090,125	$ 1.36 $18.55	$ 8.32		
Granted at Fair Value	0				
Exercised	0				
Expired	0				
Cancelled	0				
Outstanding at August 31, 2008	2,090,125	$ 1.36 $18.55	$ 8.32	6.52	$ 0
Exercisable at August 31, 2008	1,553,500	$ 1.36 $18.55	$ 8.72	6.00	$ 0
Granted at Fair Value	20,000	$ 0.38	$ 0.38		
Exercised	0				
Expired	0				
Cancelled	57,500	$ 1.36 $13.42	$ 3.80		
Outstanding at November 30, 2008	2,052,625	$ 0.38 $18.55	$ 8.37	6.25	$ 6,400
Exercisable at November 30, 2008	1,562,875	$ 1.36 $18.55	$ 8.88	5.73	$ 0

The aggregate intrinsic value in the table above is before taxes and based on a weighted average exercise price of $8.37 for options outstanding at November 30, 2008 and $8.88 for options exercisable at November 30, 2008. The total intrinsic value of options exercised during the six months ended November 30, 2008 and November 30, 2007 was $0 and $0, respectively. The total fair value of options vested during the three months ended November 30, 2008 and November 30, 2007 was $298,047 and $494,522, respectively. The total fair value of options vested during the six months ended November 30, 2008 and November 30, 2007 was $707,467 and $623,851, respectively.

(6) RESTRICTED CASH

As of November 30, 2008, the Company had $77,125 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 November 30, 2008 and November 30, 2007, $59,728 and $743,519 of restricted cash from a government grant was recognized as a contra-expense, respectively, and $83,700 and $2,732 was recognized as a reduction in the asset carrying value, respectively.

For the six-month period ended November 30, 2008 and November 30, 2007, $70,899 and $1,736,190 of restricted cash from a government grant was recognized as a contra-expense, respectively, and $153,541 and $186,771 was recognized as a reduction in the asset carrying value, respectively.

(7) MARKETABLE SECURITIES

The Company, at November 30, 2008, was 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 three months or less.

The fair market value of the Company s marketable securities was $4,996,770 at November 30, 2008, which included gross unrealized holding losses of $913. The fair market value of the Company s marketable securities was $7,979,440 at May 31, 2008, which included gross unrealized holding losses of $390. All of these marketable securities are scheduled to mature in less than three months.

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(8) MISCELLANEOUS RECEIVABLE

For the second quarter ended November 30, 2008, the Company recorded a miscellaneous receivable in the amount of $305,948 to reflect proceeds from an insurance claim made in November 2008 for legal expenses incurred in relation to a putative class action lawsuit that was initiated in September 2006. This receivable offsets a corresponding liability in the amount of $305,948 that has been recorded to reflect the amount due to the Company s legal counsel.

(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.

At November 30, 2008, there was $183,000 of property, plant and equipment that was placed in service for which payment had not yet been made and was recorded in accounts payable. This item represents a non-cash investing activity for statement of cash flow purposes.

(10) INCOME TAXES

The Company adopted the provisions of Financial Accounting Standards Board (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 November 30, 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 1993 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.

(11) 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 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 and the individual defendants filed a motion to dismiss, and the briefing of that motion was completed on June 26, 2008. On September 23, 2008, the Court denied the motion to dismiss, and on December 5, 2008, the Company and the individual defendants answered the Consolidated Second Amended Class Action Complaint. Plaintiffs have advised that they intend to file a motion seeking certification of a class. Accordingly, the case has proceeded into discovery and briefing of class certification issues. The putative class action is at an early stage and it is not possible to predict the outcome or to estimate the amount of liability, if any, of the Company.

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

RECENT DEVELOPMENTS

On December 30, 2008, Northfield announced that the Food and Drug Administration, or FDA, has accepted for filing its Biologics License Application, or BLA, for PolyHeme®, the Company s investigative human hemoglobin-based red cell substitute for the treatment of life-threatening red blood cell loss when an oxygen-carrying fluid is required and red blood cells are not available. FDA has designated the submission for Priority Review with a review goal date of April 30, 2009.

RESULTS OF OPERATIONS

We reported no revenues for the three and six month periods ended November 30, 2008 and 2007. From Northfield s inception through November 30, 2008, we have reported total revenues of $3,000,000, all of which were derived from licensing fees.

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OPERATING EXPENSES

Operating expenses for our second quarter ended November 30, 2008 totaled $5,648,000, an increase of $226,000 from the $5,422,000 reported in the second quarter of fiscal 2008. Measured on a percentage basis, second quarter fiscal 2009 expenses exceeded the second fiscal quarter of 2008 by 4.2%. Increased expenses were incurred in BLA production, preparation for a manufacturing site audit by FDA and for expenses in connection with our annual meeting of stockholders.

Operating expenses for the six months ended November 30, 2008 totaled $11,652,000 which was an increase of $942,000, or 8.8%, from the $10,710,000 incurred in the comparable prior year period. The incurred expenses primarily related to BLA preparation and to documentation in anticipation of a facility audit by FDA.

Research and development expenses during the second fiscal quarter ended November 30, 2008 equaled $4,271,000. This level of expense exceeded the prior year s comparable period by $330,000, or 8.4%. The current quarter s efforts were focused on final edits and data processing tasks to complete our BLA. These efforts required the purchasing of additional technical and professional services to complete the tasks on an expedited basis.

For the six month period ended November 30, 2008, research and development expense of $8,652,000 exceeded the research and development expenses for the six month period ended November 30, 2007 by $934,000, or 12.1%. Purchased validation services, used to define and document the current manufacturing and quality routines applied in the production of PolyHeme, was the single largest contributor to the increase in expense for research and development.

We anticipate research and development expenses in the third fiscal quarter will remain steady. Bonus payments will be made in connection with the filing of our BLA and site audit preparations will continue. We anticipate a decrease in research and development expenses in the fourth fiscal quarter of 2009. Depending on the date of an FDA review and the outcome of that review, the extent of clinical and regulatory documentation support for the manufacturing process should diminish. We are currently preparing for a potential Blood Product Advisory Committee review in our fourth fiscal quarter of 2009. The preparation expenses related to this review will largely occur in the third fiscal quarter of 2009.

General and administration expenses for the second fiscal quarter of 2009 totaled $1,377,000, a decrease of $105,000, or 7.1%, from the $1,482,000 incurred in the second quarter of fiscal 2008. The decrease was achieved despite the expenses of $174,000 incurred in connection with our annual shareholder meeting held in October 2008.

For the six month period ended November 30, 2008, general and other administrative expenses totaled $2,999,000, which was 0.25% higher that the comparable prior year period.

During the third fiscal quarter of 2009, we will be incurring compensation expenses in connection with employee bonuses that were contingent upon FDA filing of our BLA and FDA granting the filing a priority review, and expect to make a payment of approximately $110,000 related to the termination of our corporate office lease in Evanston, Illinois. In the first quarter of fiscal 2010 (beginning in June 2009), we will be consolidating our operations at our owned Mt. Prospect, Illinois facility. We do not anticipate adding any significant administrative programs over the balance of the current fiscal year.

INTEREST INCOME

Interest income for the second quarter ended November 30, 2008 totaled $54,000, a decrease of $347,000, or 86.5%, from the second quarter of fiscal 2007. Available cash, restricted cash, and short-term marketable securities as of November 30, 2008 totaled $10,105,000. We had $31,385,000 in available cash restricted cash, and short-term marketable securities as of November 30, 2007. Along with lower available investment balances, interest rates on marketable securities have also markedly declined. A year ago, our commercial paper investments were yielding an average of 5.17%. During our third fiscal quarter of 2009, we moved the majority of our investment balances to government insured certificates of deposit and a money market fund investing in treasuries. This change comes at a cost of lower yield. Currently, annual interest rates on short term CDs are yielding approximately 2% and investments in money market funds are yielding an average of 0.5% per year.

For the six month period ended November 30, 2008, investment income amounted to $136,000, a decrease of $748,000, or 84.6%, from the $884,000 reported for the six months ended November 30, 2007. Lower investment balances and lower yields on investments accounted for the difference.

With declining available cash resources, we anticipate that interest income will decline over the balance of fiscal 2009 in the absence of a significant cash infusion. A one percent rate change yields a $10,000 change in interest income on a $1,000,000 investment over a 12 month period.

NET LOSS

The net loss for our three month period ended November 30, 2008 was $5,594,000, or $0.21 per share, compared to a net loss of $5,021,000, or $0.19 per share, for the three month period ended November 30, 2007. An increase in the period s operating expenses related to the filing of our BLA and continued preparations for a FDA facility audit combined with a significant reduction in other income caused our increased net loss.

For the six month period ended November 30, 2008, Northfield s net loss amounted to $11,516,000, or $0.43 per share, compared to a net loss of $9,826,000, or $0.36 per share, for the comparable prior year period. Higher expenses and lower interest income in fiscal 2009 accounted for the increased net losses in the fiscal 2009 period.

LIQUIDITY AND CAPITAL RESOURCES

From Northfield s inception through November 30, 2008, we have used cash in operating activities and for the purchase of property, plant, equipment and engineering services in the amount of $234,335,000. For the six month periods ended November 30, 2008 and 2007, these cash expenditures totaled $10,798,000 and $10,795,000, respectively.

We have financed our research and development and other activities to date through the public and private sale of equity securities and, to a very limited extent, through the license of product rights. As of November 30, 2008, we had cash and cash equivalents, restricted cash and short term marketable securities totaling $10,105,000. As previously reported, we were 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 November 30, 2008, $77,000 of these funds remain available.

The financial statements of the Company have been presented based on the assumption that the Company will continue as a going concern. The Company, however, may not be able to continue as a going concern because it expects to experience significant future losses and currently has insufficient capital resources to fund its continuing operations. We are currently utilizing our cash resources at a rate of approximately $21.6 million per year. We expect the rate at which we utilize our cash resources will remain consistent in the third quarter and decline in the fourth quarter in order to conserve available cash resources unless additional funding is secured. Based on our current estimates, we believe our existing cash resources will be sufficient to permit us to conduct our operations for approximately 5 to 6 months from November 30, 2008, which should allow for the completion of the FDA s priority review of our BLA. To continue operations beyond this point, we will either have to severely restrict our spending or raise additional capital.

There can be no assurance that the Company will have adequate capital resources through May 31, 2009. The Company s inability to raise sufficient levels of capital could materially delay or prevent the commercialization of its PolyHeme blood substitute product and could result in the cessation of the Company s business. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We cannot ensure that we will be able to achieve product revenues or profitability on a sustained basis or at all. As a result, our independent accountants have included an explanatory paragraph in their audit opinion for the year ended May 31, 2008 based on uncertainty regarding our ability to continue as a going concern. Our capital requirements may vary materially from those now anticipated because of the timing and results of our clinical testing of PolyHeme, the establishment of relationships with strategic partners, changes in the scale, timing or cost of our planned commercial manufacturing facility, competitive and technological advances, the FDA regulatory process, changes in our marketing and distribution strategy and other factors.

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 status of the FDA review of our BLA submission, as well as general conditions in the business and financial markets.

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 policies reflect our more significant judgments and estimates used in the preparation of our financial statements.

SHARE-BASED COMPENSATION

Effective June 1, 2006, we adopted SFAS No. 123R, Share-Based Payment. We elected to use the modified prospective application of SFAS No. 123R for awards issued prior to June 1, 2006. Income from continuing operations before income tax for the years ended May 31, 2007 and 2008, includes total expense recognized for all of our stock-based payment plans.

The fair value of stock options granted under the stock incentive plans is estimated on the date of grant based on the Black-Scholes option pricing model. We utilize our own historical stock price movement as the basis for our calculated expected volatility factor. We use historical data to estimate stock option exercise and employee departure behavior used in the Black-Scholes option pricing model. The expected term of stock options granted represents the period of time that stock options granted are expected to be

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outstanding. The risk-free rate for the period within the contractual term of the stock option is based on the U.S. Treasury yield curve in effect at the time of grant.

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. As of May 31, 2008, we have recorded a 100% percent valuation allowance against our net deferred tax assets. 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.

CONTRACTUAL OBLIGATIONS

The following table reflects a summary of our contractual cash obligations as of November 30, 2008:

Contractual Obligations	**Total**	**Less than One Year**	**1 3 Years**
Lease Obligations (1)	$ 294,871	$ 294,871	
Other Obligations (2)	$2,852,535	$2,852,535	
Total Contractual Cash Obligations	**$3,147,406**	**$3,147,406**	

(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.

During the third fiscal quarter of 2009, we expect to make a payment of approximately $110,000 to terminate the lease for our corporate office in Evanston, Illinois. In the first quarter of fiscal 2010 (June 2009), we will be consolidating our operations at our owned Mt. Prospect, Illinois facility.

(2) Represents payments required to be made upon termination of employment of our officers. Figures shown represent compensation payable upon the termination of the employment of these officers for reasons other than death, disability, cause or voluntary termination of employment by the officers other than for good reason. Additional payments may be required in connection with a termination of employment of certain executive

officers following a change in control of Northfield.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Under SFAS 159, a business entity is required to report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not have a material effect on our financial statements.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The requirements of SFAS 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which provides a one year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. In accordance with FSP FAS No. 157-2, we only adopted the provisions for SFAS No. 157 with respect to our financial assets and liabilities that are measured at fair value within the financial statements as of June 1, 2008. The adoption of SFAS 157 did not have a material effect on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations. This Statement will replace SFAS No. 141, Business Combinations. This Statement establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement applies prospectively to business combinations for which the acquisition date is on or after the

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beginning of the first annual reporting period beginning on or after December 15, 2008. We plan to adopt this Statement on June 1, 2009. We do not believe that adoption of SFAS 141 will have a material effect on our financial statements.

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 $10,105,000 at November 30, 2008 would decrease interest income by $101,000 on an annual basis.

ITEM 4. CONTROLS AND PROCEDURES.

Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer and Senior Vice President of Administration 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 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 and the individual defendants filed a motion to dismiss, and the briefing of that motion was completed on June 26, 2008. On September 23, 2008, the Court denied the motion to dismiss, and on December 5, 2008, the Company and the individual defendants answered the Consolidated Second Amended Class Action Complaint. Plaintiffs have advised that they intend to file a motion seeking certification of a class. Accordingly, the case has proceeded into discovery and briefing of class certification issues. The putative class action is at an early stage and it is not possible to predict the outcome.

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, 2008, 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.

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As of November 30, 2008, we had cash and cash equivalents and marketable securities of approximately $10.1 million. We are currently utilizing our cash resources at a rate of approximately $21.6 million per year, and we expect to maintain this rate of cash utilization through our third fiscal quarter of 2009. Based on our current estimates, we anticipate that our existing financial resources will be adequate to permit us to continue to conduct our business only for approximately 5 to 6 months from November 30, 2008. 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. Any additional funding derived from financing our owned manufacturing facility will be subject to prevailing conditions in the commercial real estate market, which may be adverse and may not permit us to derive full value from our facility. The opinion of our independent accountants with respect to our audited financial statements includes an explanatory paragraph regarding the continuation of our company as a going concern. We are also subject to a putative class action lawsuit alleging violations of the federal securities laws. In addition, we have received notice from the Nasdaq Stock Market that our common stock may be delisted from the Nasdaq Global Market if we fail to achieve compliance with Nasdaq s $1.00 minimum bid price per share. 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.

Item 2. Submission of Matters to a Vote of Security Holders

Our annual meeting of stockholders was held on October 2, 2008. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934 and there was not solicitation in opposition to management s solicitation. Each of the management s nominees for directors, as listed in the proxy statement, was elected with the number of votes set forth below.

Nominee	For	Withheld
Steven A. Gould, M.D.	21,263,700	3,129,674
John F. Bierbaum	21,329,858	3,063,516
Bruce S. Chelberg	21,346,789	3,046,585
Alan L. Heller	21,408,592	2,984,782
Paul M. Ness, M.D.	20,211,927	4,181,447
David A. Savner	21,478,486	2,914,888
Edward C. Wood, Jr.	21,513,802	2,879,572

The aforesaid nominees were elected as Directors.

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

Proposal	For	Against	Abstain	Non-Votes
The proposal to ratify the appointment of KPMG LLP as the independent registered public accounting firm for the Company to serve for the Company s 2009 fiscal year was approved.	22,605,950	1,392,550	394,874	0
The proposal to amend the 2003 Equity Compensation Plan to increase the number of common stock awards available under the plan and increase the annual limits on the number of shares that may be awarded to participants was not approved.	9,243,960	5,577,121	144,864	9,427,429

The proposal to amend the Company s restated certificate of incorporation to effect a reverse split of the outstanding shares of the Company s common stock was not approved.	18,340,001	5,912,817	140,556	0

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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 January 9, 2009.

Signature	Title
/s/ Steven A. Gould	Chairman of the Board and Chief Executive Officer
Steven A. Gould, M.D.	
/s/ Jack Kogut	Senior Vice President of Administration
Jack Kogut	

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