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ALFACELL CORP  
Form 10-Q  
March 17, 2003

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

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FORM 10-Q

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

January 31, 2003  
For the quarterly period ended

0-11088  
Commission file number

ALFACELL CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of organization)

22-2369085  
(I.R.S. Employer Identification No.)

225 Belleville Avenue, Bloomfield, New Jersey 07003  
(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code) (973) 748-8082

NOT APPLICABLE  
(Former name, former address, and former fiscal year,  
if changed since last report.)

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes  No

The number of shares of common stock, \$.001 par value, outstanding as of March 14, 2003 was 22,982,958 shares.

ALFACELL CORPORATION  
(A Development Stage Company)

PART I. FINANCIAL INFORMATION  
Item 1. Financial Statements

BALANCE SHEETS  
January 31, 2003 and July 31, 2002

ASSETS

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Current assets:	
Cash and cash equivalents	\$
Other assets	
	-----
Total current assets	
Property and equipment, net of accumulated depreciation and amortization of \$1,131,788 at January 31, 2003 and \$1,120,371 at July 31, 2002	
Loan receivable, related party	
	-----
Total assets	\$ 1 =====
LIABILITIES AND STOCKHOLDERS' (DEFICIENCY)	
Current liabilities:	
Current portion of long-term debt	\$ 1
Loan payable, related party	1
Accounts payable	5
Accrued expenses	1,1
	-----
Total current liabilities	2,0
Long-term debt, less current portion, net of debt discount of \$138,460	6
	-----
Total liabilities	2,6 -----
Stockholders' (deficiency):	
Preferred stock, \$.001 par value	
Authorized and unissued, 1,000,000 shares at January 31, 2003 and July 31, 2002	
Common stock \$.001 par value	
Authorized 40,000,000 shares at January 31, 2003 and July 31, 2002;	
Issued and outstanding, 22,872,958 at January 31, 2003 and	
22,760,921 shares at July 31, 2002	
Capital in excess of par value	60,0
Deficit accumulated during the development stage	(62,6
	-----
Total stockholders' (deficiency)	(2,5 -----
Total liabilities and stockholders' (deficiency)	\$ 1 =====

See accompanying notes to financial statements.

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ALFACELL CORPORATION  
(A Development Stage Company)

STATEMENTS OF OPERATIONS

Three months and six months ended January 31, 2003 and 2002,  
and the Period from August 24, 1981  
(Date of Inception) to January 31, 2003

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(Unaudited)

	Three Months Ended January 31,		Six Months January	
	2003	2002	2003	
Revenue:				
Sales	\$ --	\$ --	\$ --	\$
Investment income	120	136	234	
Other income	--	--	30,000	
	-----	-----	-----	
Total revenue	120	136	30,234	
	-----	-----	-----	
Costs and expenses:				
Cost of sales	--	--	--	
Research and development	379,866	506,458	799,370	
General and administrative	152,320	188,189	288,076	
Interest:				
Related parties, net	1,286	--	1,286	
Others	204,056	3,363	238,284	
	-----	-----	-----	
Total costs and expenses	737,528	698,010	1,327,016	
	-----	-----	-----	
Loss before state tax benefit	(737,408)	(697,874)	(1,296,782)	
State tax benefit	--	--	229,459	
	-----	-----	-----	
Net loss	\$ (737,408)	\$ (697,874)	\$ (1,067,323)	\$
	=====	=====	=====	
Loss per basic common share	\$ (.03)	\$ (.03)	\$ (.05)	\$
	=====	=====	=====	
Weighted average number of shares outstanding	22,872,958	20,581,938	22,830,115	
	=====	=====	=====	

See accompanying notes to financial statements.

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ALFACELL CORPORATION  
(A Development Stage Company)

STATEMENTS OF CASH FLOWS

Six months ended January 31, 2003 and 2002,  
and the Period from August 24, 1981

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(Date of Inception) to January 31, 2003

(Unaudited)

	Six Months Ended January 31, -----	2002 -----
	2003	2002
	-----	-----
Cash flows from operating activities:		
Net loss	\$(1,067,323)	\$(1,075,
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of marketable securities	--	
Depreciation and amortization	11,417	24,
Loss on disposal of property and equipment	--	
Noncash operating expenses	14,275	107,
Charge for beneficial conversion rights	200,487	
Amortization of debt discount	7,626	
Amortization of deferred compensation	--	
Amortization of organization costs	--	
Changes in assets and liabilities:		
Decrease (increase) other current assets	33,656	21,
(Increase) Decrease in other assets	(2,747)	(17,
Increase in interest payable-related party	--	
(Decrease) increase in accounts payable	(186,294)	329,
Increase in accrued payroll and expenses, related parties	--	
Increase in accrued expenses	341,056	39,
	-----	-----
Net cash used in operating activities	(647,847)	(572,
	-----	-----
Cash flows from investing activities:		
Purchase of marketable equity securities	--	
Proceeds from sale of marketable equity securities	--	
Purchase of property and equipment	--	
Patent costs	--	
	-----	-----
Net cash used in investing activities	--	-----
	-----	-----

See accompanying notes to financial statements.

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ALFACELL CORPORATION  
(A Development Stage Company)

STATEMENTS OF CASH FLOWS, Continued

Six months ended January 31, 2003 and 2002,  
and the Period from August 24, 1981  
(Date of Inception) to January 31, 2003

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(Unaudited)

	Six Months Ended January 31,	
	2003	2002
	-----	-----
Cash flows from financing activities:		
Proceeds from short-term borrowings	\$ 25,000	\$
Payment of short-term borrowings	(25,000)	(5,
(Decrease) increase in loans payable - related party, net	(35,761)	135,
Proceeds from bank debt and other long-term debt, net of deferred issuance costs	615,000	
Reduction of long-term debt	(3,965)	(2,
Proceeds from issuance of common stock, net	5,693	414,
Proceeds from exercise of stock options and warrants, net	--	
Proceeds from issuance of convertible debentures, related party	--	
Proceeds from issuance of convertible debentures, unrelated party	--	
	-----	-----
Net cash provided by financing activities	580,967	541,
	-----	-----
Net (decrease) increase in cash and cash equivalents	(66,880)	(30,
Cash and cash equivalents at beginning of period	85,843	44,
	-----	-----
Cash and cash equivalents at end of period	\$ 18,963	\$ 14,
	=====	=====
Supplemental disclosure of cash flow information - interest paid	\$ 3,846	\$ 5,
	=====	=====
Noncash financing activities:		
Issuance of convertible subordinated debenture for loan payable to officer	\$ -	\$
	=====	=====
Issuance of common stock upon the conversion of convertible subordinated debentures, related party	\$ -	\$
	=====	=====
Conversion of short-term borrowings to common stock	\$ -	\$
	=====	=====
Conversion of accrued interest, payroll and expenses by related parties to stock options	\$ -	\$
	=====	=====
Repurchase of stock options from related party	\$ -	\$
	=====	=====
Conversion of accrued interest to stock options	\$ -	\$
	=====	=====
Conversion of accounts payable to common stock	\$ 10,000	\$ 50,
	=====	=====
Conversion of notes payable, bank and accrued interest to long-term debt	\$ -	\$
	=====	=====
Conversion of loans and interest payable, related party and accrued payroll and expenses, related parties to long-term accrued payroll and other, related party	\$ -	\$
	=====	=====
Issuance of common stock upon the conversion of convertible subordinated debentures, other	\$ -	\$ 64,
	=====	=====
Issuance of common stock for services rendered	\$ -	\$
	=====	=====

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Issuance of warrants with notes payable

\$ 146,086

\$

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See accompanying notes to financial statements.

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ALFACELL CORPORATION  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of January 31, 2003 and its results of operations and cash flows for the three and/or six month periods ended January 31, 2003 and 2002 and the period from August 24, 1981 (date of inception) to January 31, 2003. The results of operations for the six months ended January 31, 2003 are not necessarily indicative of the results to be expected for the full year.

The Company is a development stage company as defined in the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 7. The Company is devoting substantially all of its present efforts to establishing a new business. Its planned principal operations have not commenced and, accordingly, no significant revenue has been derived therefrom.

The Company has reported net losses since its inception. Also, the Company has limited liquid resources. The report of the Company's former independent accountants on the Company's July 31, 2002 financial statements included an explanatory paragraph which states that the Company's recurring losses, working capital deficit and limited liquid resources raise substantial doubt about the Company's ability to continue as a going concern. The financial statements at July 31, 2002 and January 31, 2003 do not include any adjustments that might result from the outcome of this uncertainty.

The Company's continued operations will depend on its ability to raise additional funds through various potential sources such as equity and debt financing, collaborative agreements, strategic alliances, sale of tax benefits, revenues from the commercial sale of ONCONASE(R), licensing of its proprietary RNase technology and its ability to realize the full potential of its technology and its drug candidates via out-licensing agreements with other companies. Such additional funds may not become available as needed or be available on acceptable terms. To date, a significant portion of the Company's financing has been through private placements of common stock and warrants, the issuance of common stock for stock options and warrants exercised and for services rendered, debt financing and financing provided by the Company's Chief Executive Officer. Additionally, the Company has raised capital through the sale of its tax benefits. Until and unless the Company's operations generate significant revenues, the Company will attempt to continue to fund its operations from cash on hand and through the sources of capital previously described. From August 1, 2002 through February 27, 2003, the Company received gross proceeds of approximately \$981,000 from long-term and short-term borrowings from unrelated parties, the private placement of common stock and warrants and other income. No

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assurances can be provided that the additional capital will be sufficient to meet the Company's needs.

### 2. LOSS PER COMMON SHARE

"Basic" loss per common share equals net loss divided by weighted average common shares outstanding during the period. "Diluted" loss per common share equals net income divided by the sum of weighted average common shares outstanding during the period plus the effect of potentially dilutive securities. The

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### ALFACELL CORPORATION (A Development Stage Company)

#### NOTES TO FINANCIAL STATEMENTS, Continued

Unaudited

### 2. LOSS PER COMMON SHARE, Continued

Company's Basic and Diluted per share amounts are the same since the assumed exercise of stock options and warrants are all anti-dilutive. The amount of options and warrants excluded from the calculation was 10,139,294 and 7,802,895 at January 31, 2003 and 2002, respectively.

### 3. RELATED PARTY INSTRUMENTS

The Company's CEO, Kuslima Shogen, has made loans to the Company repayable upon demand bearing interest at 8% per annum. As of January 31, 2003, the Company owes Ms. Shogen \$104,033 classified as a current liability included in Loan payable, related party. Amounts due from Ms. Shogen totaling \$71,414 are classified as a long term asset in Loan receivable, related party as the Company does not expect repayment of these amounts within one year. The Company earns interest at a rate of 8% per annum.

### 4. ACCOUNTING FOR WARRANTS

The Company accounts for the intrinsic value of beneficial conversion rights arising from the issuance of convertible debt instruments with nondetachable conversion rights that are in-the money at the commitment date pursuant to the consensuses for EITF Issue No. 98-5 and EITF Issue No. 00-27. Such value is allocated to additional paid-in capital and the resulting debt discount is charged to interest expense using the effective yield method over the period to the debt instrument's earliest conversion date. Such value is determined after first allocating an appropriate portion of the proceeds received to warrants or any other detachable instruments included in the exchange.

### 5. LONG TERM DEBT, NOTES PAYABLE

From August 2002 through January 2003, the Company issued 8% convertible notes payable to unrelated parties with principal balances in an aggregate total of \$615,000. These notes payable are scheduled to mature on various dates from April 2004 through May 2005. Additionally, with the issuance of the notes payable, the Company issued to unrelated parties warrants to purchase an aggregate of 515,000 shares of the Company's common stock expiring five years from the date of issuance at an exercise price of \$0.60 per share. In addition, the Company will issue on the due date of the notes payable warrants to purchase

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an aggregate of 715,000 shares of the Company's common stock expiring five years from the date of issuance at per share exercise prices of \$1.00 and \$1.10. The Company valued these warrants in an aggregate of \$146,086 based on the fair value determined by using the Black-Scholes method. At the issuance dates of the notes payable, the fair market values of the Company's shares exceeded the effective conversion prices. Accordingly, the Company initially increased additional paid-in capital by \$146,086 for the fair value of the warrants and reduced the carrying value of the notes payable for the same amount for the debt discount attributable to the fair value of the warrants. The Company is amortizing the debt discount over the terms of the notes payable.

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### ALFACELL CORPORATION (A Development Stage Company)

#### NOTES TO FINANCIAL STATEMENTS, Continued

##### Unaudited

#### 5. LONG TERM DEBT, NOTES PAYABLE, Continued

Pursuant to the applicable guidance in the consensus for EITF Issue No. 00-27, which became effective on November 16, 2000, the Company valued the beneficial conversion feature using the effective conversion price. Accordingly, the Company first allocated \$146,086 to the detachable warrants and decreased the carrying value of the notes payable. Based on the effective conversion prices, the Company recorded a beneficial conversion charge of \$200,487 which was charged to interest expense in the Company's statement of operations for the three and six months ended January 31, 2003 immediately since the notes payable are immediately convertible at the option of the holder.

#### 6. CAPITAL STOCK

In September 2002, the Company issued 40,000 shares of common stock upon the exercise of warrants by an unrelated party, which resulted in gross proceeds of \$20,000 to the Company.

In October 2002, the Company issued 37,037 shares of common stock in settlement of accounts payable in the amount of \$10,000. The settled accounts payable amount was credited to equity as the value of the common stock.

In October 2002, the Company sold 35,000 shares of common stock to a private investor resulting in proceeds of \$7,000 to the Company. In addition, the private investor was granted five-year warrants to purchase 35,000 shares of common stock at an exercise price of \$1.00 per share.

In October 2002, the Company issued five-year stock options to purchase 25,000 shares of common stock to an unrelated party as an incentive for lending the Company an aggregate of \$25,000, of which, \$5,000 was repaid during the quarter. The stock options vested immediately and have an exercise price of \$0.23 per share. The total non-cash interest expense recorded for these stock options was \$2,503, based upon the fair value of such options on the date of issuance, as estimated by the Black-Scholes options-pricing model.

During the period ended January 31, 2003, the Company incurred an aggregate \$21,307 of expenses relating to the registration of shares issued in various private placements.

#### 7. SALE OF NET OPERATING LOSSES



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New Jersey has enacted legislation permitting certain corporations located in New Jersey to sell state tax loss carryforwards and state research and development credits, or tax benefits. For the state fiscal year 2003 (July 1, 2002 to June 30, 2003), the Company has approximately \$1,372,000 total available tax benefits of which approximately \$273,000 was allocated to be sold between July 1, 2002 and June 30, 2003. In December 2002, the Company received approximately \$229,000 from the sale of its allocated tax benefits which was recognized as a tax benefit for the six months ended January 31, 2003. In December 2001, the Company received approximately \$354,000 from the sale of its allocated tax benefits which was recognized as a tax benefit for the fiscal year ended July 31, 2002. The Company

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ALFACELL CORPORATION  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

Unaudited

7. SALE OF NET OPERATING LOSSES, Continued

will attempt to sell the remaining balance of its tax benefits in the amount of approximately \$1,099,000 between July 1, 2003 and June 30, 2004, subject to all existing laws of the State of New Jersey. However, there is no assurance that the Company will be able to find a buyer for its tax benefits or that such funds will be available in a timely manner.

8. ACCRUED EXPENSES

Included in accrued expenses as of January 31, 2003 is \$690,400 of unpaid payroll and payroll taxes. The Company is currently negotiating a payment plan with the taxing authorities for the payment of payroll taxes with interest and penalties, to be determined. The Company believes that any interest and penalties assessed will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

9. SUBSEQUENT EVENTS

In February 2003, the Company issued an aggregate of 110,000 shares of common stock to private investors resulting in proceeds of \$55,000 to the Company. In addition, the private investors were granted five-year warrants to purchase 110,000 shares of common stock at an exercise price of \$1.25 per share.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Information contained herein contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. All statements, other than statements of historical fact, regarding our financial position, potential, business strategy, plans and objectives for future operations are "forward-looking statements." These statements are commonly identified by the use of forward-looking terms and phrases as

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"anticipates," "believes," "estimates," "expects," "intends," "may," "seeks," "should," or "will" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. We cannot be sure that the future results covered by these forward-looking statements will be achieved. The matters set forth in Exhibit 99.1 to our annual report on Form 10-K for the fiscal year ended July 31, 2002 which is incorporated herein by reference, constitute cautionary statements identifying important factors with respect to these forward-looking statements, including certain risks and uncertainties, that could cause actual results to vary significantly from the future results indicated in these forward-looking statements. Other factors could also cause actual results to differ significantly from the future results indicated in these forward-looking statements.

### Results of Operations

Three and six month periods ended January 31, 2003 and 2002

**Revenues.** We are a development stage company as defined in the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 7. We are devoting substantially all of our present efforts to establishing a new business and developing new drug products. Our planned principal operations of marketing and/or licensing of new drugs have not commenced and, accordingly, we have not derived any significant revenue from these operations. We focus most of our productive and financial resources on the development of ONCONASE(R) and as such we have not had any sales in the three and six month periods ended January 31, 2003 and 2002. For the six months ended January 31, 2003, our other income was \$30,200.

**Research and Development.** Research and development expense for the three months ended January 31, 2003 was \$380,000 compared to \$506,000 for the same period last year, a decrease of \$126,000, or 25%. This decrease was primarily due to a decrease in costs related to our Phase III clinical trial for malignant mesothelioma, decrease in personnel costs, decrease in regulatory consulting costs and reduction of a non-cash expense related to stock options issued for consulting services. These decreases were partially offset by an increase in costs related to patent and trademark applications/renewals for ONCONASE(R).

Research and development expense for the six months ended January 31, 2003 was \$799,000 compared to \$1,008,000 for the same period last year, a decrease of \$209,000, or 21%. This decrease was primarily due to a decrease in costs related to our Phase III clinical trial for malignant mesothelioma, decrease in regulatory consulting costs, decrease in personnel costs and reduction of a non-cash expense related to stock options issued for consulting services.

**General and Administrative.** General and administrative expense for the three months ended January 31, 2003 was \$152,000 compared to \$188,000 for the same period last year, a decrease of \$36,000, or 19%. This decrease was primarily due to decreases in legal and public relations expenses and a reduction of a non-cash expense related to stock options issued for consulting services.

General and administrative expense for the six months ended January 31, 2003 was \$288,000 compared to \$383,000 for the same period last year, a decrease of \$95,000, or 25%. This decrease was primarily due to decreases in public relations and legal expenses and a reduction of a non-cash expense related to stock options issued for consulting services.

**Interest.** Interest expense for the three months ended January 31, 2003 was \$204,000 compared to \$3,000 for the same period last year, an increase of \$201,000. Interest expense for the six months ended January 31, 2003 was \$238,000 compared to \$38,000 for the same period last year, an increase of \$200,000. These increases were primarily due to the interest expense on the

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beneficial conversion feature of the notes payable issued to unrelated parties and its related warrants. The interest expense was based on the fair value of the warrants using the Black-Scholes method, amortized over the life of the notes payable.

**Income Taxes.** New Jersey has enacted legislation permitting certain corporations located in New Jersey to sell state tax loss carryforwards and state research and development credits or tax benefits. For the state fiscal year 2003 (July 1, 2002 to June 30, 2003), we have approximately \$1,372,000 total available tax benefits of which approximately \$273,000 was allocated to be sold between July 1, 2002 and June 30, 2003. In December 2002, we received approximately \$229,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the six months ended January 31, 2003. In December 2001, we received approximately \$354,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the fiscal year ended July 31, 2002. We will attempt to sell the remaining balance of our tax benefits in the amount of approximately \$1,099,000 between July 1, 2003 and June 30, 2004, subject to all existing laws of the State of New Jersey. However, we cannot assure you that we will be able to find a buyer for our tax benefits or that such funds will be available in a timely manner.

**Net Loss.** We have incurred net losses during each year since our inception. The net loss for the three months ended January 31, 2003 was \$737,000 as compared to \$698,000 for the same period last year, a decrease of \$39,000. The net loss for the six months ended January 31, 2003 was \$1,067,000 as compared to \$1,075,000 for the same period last year, a decrease of \$8,000. The cumulative loss from the date of inception, August 24, 1981 to January 31, 2003, amounted to \$62,630,000. Such losses are attributable to the fact that we are still in the development stage and accordingly have not derived sufficient revenues from operations to offset the development stage expenses.

### Liquidity and Capital Resources

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We have financed our operations since inception primarily through equity and debt financing, research product sales and interest income. During the six months ended January 31, 2003, we had a net decrease in cash and cash equivalents of \$67,000, which resulted primarily from net cash used in operating activities of \$648,000, offset by net cash provided by financing activities of \$581,000, primarily from the proceeds from long-term borrowings. Total cash resources as of January 31, 2003 were \$19,000 compared to \$86,000 at July 31, 2002.

Our current liabilities as of January 31, 2003 were \$2,008,000 compared to \$1,798,000 at July 31, 2002, an increase of \$210,000. The increase was primarily due to the increased accrued expenses and current portion of long-term notes payable. As of January 31, 2003 our current liabilities exceeded our current assets and we had a working capital deficit of \$1,977,000.

Our continued operations will depend on our ability to raise additional funds through various potential sources such as equity and debt financing, collaborative agreements, strategic alliances, sale of tax benefits, revenues from the commercial sale of ONCONASE(R), licensing of our proprietary RNase technology and our ability to realize the full potential of our technology and our drug candidates via out-licensing agreements with other companies. Such additional funds may not become available as we need them or be available on acceptable terms. To date, a significant portion of our financing has been through private placements of common stock and warrants, the issuance of common stock for stock options and warrants exercised and for services rendered, debt

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financing and financing provided by our Chief Executive Officer. Additionally, we have raised capital through the sale of our tax benefits. Until and unless our operations generate significant revenues, we will attempt to continue to fund operations from the sources of capital previously described. However, there can be no assurance that we will be able to raise the capital needed. After taking into account the net proceeds we received from the sale of our tax benefits in December 2002, we believe that our cash and cash equivalents as of January 31, 2003 will be sufficient to meet our anticipated cash needs through January 31, 2004. We are continuing our fund raising efforts and anticipate securing required financing in the second calendar quarter of 2003. The report of our former independent auditors on our July 31, 2002 financial statements included an explanatory paragraph which states that our recurring losses, working capital deficit and limited liquid resources raise substantial doubt about our ability to continue as a going concern. As of January 31, 2003, we continued to incur losses, had a working capital deficiency and limited liquid resources which raise substantial doubt about the Company's ability to continue as a going concern. Our financial statements at January 31, 2003 and July 31, 2002 do not include any adjustments that might result from the outcome of this uncertainty.

We will continue to incur costs in conjunction with our U.S. and foreign registrations for marketing approval of ONCONASE(R). We are currently in discussions with several potential strategic alliance partners, including major international biopharmaceutical companies, to further the development and marketing of ONCONASE(R) and other related products in our pipeline. However, we cannot be sure that any such alliances will materialize.

New Jersey has enacted legislation permitting certain corporations located in New Jersey to sell state tax loss carryforwards and state research and development credits or tax benefits. For the state fiscal year 2003 (July 1, 2002 to June 30, 2003), we have approximately \$1,372,000 total available tax benefits of which approximately \$273,000 was allocated to be sold between July 1, 2002 and June 30, 2003. In December 2002, we received approximately \$229,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the six months ended January 31, 2003. In December 2001, we received approximately \$354,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the fiscal year ended July 31, 2002. We will attempt to sell the remaining balance of our tax benefits in the amount of approximately \$1,099,000 between July 1, 2003 and June 30,

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2004, subject to all existing laws of the State of New Jersey. However, we cannot assure you that we will be able to find a buyer for our tax benefits or that such funds will be available in a timely manner.

Our common stock was delisted from The Nasdaq SmallCap Market effective at the close of business April 27, 1999 for failing to meet the minimum bid price requirements set forth in the NASD Marketplace Rules. As of April 28, 1999, our common stock trades on the OTC Bulletin Board under the symbol "ACEL.OB". Delisting of our common stock from Nasdaq could have a material adverse effect on our ability to raise additional capital, our stockholders' liquidity and the price of our common stock.

The market price of our common stock is volatile, and the price of the stock could be dramatically affected one way or another depending on numerous factors. The market price of our common stock could also be materially affected by the marketing approval or lack of approval of ONCONASE(R).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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Not applicable.

### Item 4. Controls And Procedures.

#### (a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and acting Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 14, 2003, the evaluation date. Based upon the evaluation, the Chief Executive Officer and acting Chief Financial Officer concluded that, as of the evaluation date, our disclosure controls and procedures are effective in timely alerting her to the material information relating to us required to be included in our periodic SEC filings.

#### (b) Changes in internal controls.

There were no significant changes made in our internal controls during the period covered by this report or, to our knowledge, in other factors that could significantly affect these controls subsequent to the date of their evaluation.

## PART II. OTHER INFORMATION

### Item 2. Changes in Securities and Use of Proceeds

#### (c) Recent Sales of Unregistered Securities

In November 2002, we issued a \$200,000 8% note payable to an unrelated party, which will become due in May 2005. In consideration for the loan, we issued warrants to purchase 200,000 shares of common stock expiring in five years at an exercise price of \$0.60 per share. In addition, we will issue on the due date of the note warrants to purchase 200,000 shares of common stock at an exercise price of \$1.00 per share, expiring five years from the date of issuance. Additionally, the unrelated party can convert the note into our common stock at a conversion rate of \$0.20 per share. This transaction was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended.

In December 2002, we issued a \$65,000 8% note payable to an unrelated party, which will become

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due in June 2004. In consideration for the loan, we issued warrants to purchase 65,000 shares of common stock expiring in five years at an exercise price of \$0.60 per share. In addition, we will issue on the due date of the note warrants to purchase 65,000 shares of common stock at an exercise price of \$1.00 per share, expiring five years from the date of issuance. Additionally, the unrelated party can convert the note into our common stock at a conversion rate of \$0.35 per share. This transaction was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended.

In February 2003, we completed a private placement resulting in the issuance of an aggregate of 110,000 shares of restricted common stock and five-year warrants to purchase 110,000 shares of common stock at an exercise price of \$1.25 per share. We received \$55,000 from such private placement. This transaction was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended.

The net proceeds from the above mentioned transactions will be used for

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general corporate purposes.

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits (numbered in accordance with Item 601 of Regulation S-K).

#### Exhibit

No.	Item Title
---	-----
3.1	Certificate of Incorporation
3.2	By-Laws
3.3	Amendment to Certificate of Incorporation
3.4	Amendment to Certificate of Incorporation
4.1	Form of Convertible Debenture
10.1	Form of Stock and Warrant Purchase Agreements used in private placements completed April 1996 and June 1996
10.2	Lease Agreement - 225 Belleville Avenue, Bloomfield, New Jersey
10.3	Form of Stock Purchase Agreement and Certificate used in connection with various private placements
10.3	Form of Stock and Warrant Purchase Agreement and Warrant Agreement used in
10.4	Private Placement completed on March 21, 1994
10.5	The Company's 1993 Stock Option Plan and Form of Option Agreement
10.6	Debt Conversion Agreement dated March 30, 1994 with Kuslima Shogen
10.7	Accrued Salary Conversion Agreement dated March 30, 1994 with Kuslima Shogen
10.8	Accrued Salary Conversion Agreement dated March 30, 1994 with Stanislaw Mikulski
10.9	Option Agreement dated March 30, 1994 with Kuslima Shogen
10.10	Amendment No. 1 dated June 20, 1994 to Option Agreement dated March 30, 1994 with Kuslima Shogen
10.11	Form of Amendment No. 1 dated June 20, 1994 to Option Agreement dated March 30, 1994 with Kuslima Shogen
10.12	Form of Amendment No. 1 dated June 20, 1994 to Option Agreement dated March 30, 1994 with Stanislaw Mikulski
10.13	Form of Stock and Warrant Purchase Agreement and Warrant Agreement used in Private Placement completed on September 13, 1994
10.14	Form of Subscription Agreements and Warrant Agreement used in Private Placements closed in October 1994 and September 1995
10.15	1997 Stock Option Plan
10.16	Separation Agreement with Michael C. Lowe dated as of October 9, 1997
10.17	Form of Subscription Agreement and Warrant Agreement used in Private Placement completed on February 20, 1998
10.18	Form of Warrant Agreement issued to the Placement Agent in connection with the Private Placement completed on February 20, 1998
10.19	Placement Agent Agreement dated December 15, 1997
10.20	Separation Agreement with Gail Fraser dated August 31, 1999
10.21	Form of Subscription Agreement and Warrant Agreement used in the February 2000 Private Placement
10.22	Form of Subscription Agreement and Warrant Agreement used in the August and September 2000 Private Placement
10.23	Form of Subscription Agreement and Warrant Agreement used in the

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Exhibit No. ---	Item Title -----
	April 2001 Private Placements
10.24	Form of Convertible Note entered into in April 2001
10.25	Form of Subscription Agreement and Warrant Agreement used in the July 2001 Private Placements
10.26	Form of Subscription Agreement and Warrant Agreement used in the August and October 2001 Private Placements
10.27	Form of Subscription Agreement and Warrant Agreement used in the September 2001, November 2001 and January 2002 Private Placements
10.28	Warrant issued in the February 2002 Private Placement
10.29	Form of Subscription Agreement and Warrant Agreement used in the March 2002 and April 2002 Private Placements
10.30	Form of Subscription Agreement and Warrant Agreement used in the June 2002 and October 2002 Private Placements
10.31	Form of Note Payable and Warrant Certificate entered into April, June, July, September, November and December 2002
99.1	Factors to Consider in Connection with Forward-Looking Statements
99.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.3	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*	Previously filed as exhibit to the Company's Registration Statement on Form S-18 (File No. 2-79975-NY) and incorporated herein by reference thereto.
**	Previously filed as exhibits to the Company's Annual Report on Form 10-K for the year ended July 31, 1993 and incorporated herein by reference thereto.
***	Previously filed as exhibits to the Company's Quarterly Report on Form 10-QSB for the quarter ended January 31, 1994 and incorporated herein by reference thereto.
****	Previously filed as exhibits to the Company's Quarterly Report on Form 10-QSB for the quarter ended April 30, 1994 and incorporated herein by reference thereto.
*****	Previously filed as exhibits to the Company's Registration Statement Form SB-2 (File No. 33-76950) and incorporated herein by reference thereto.
+	Previously filed as exhibits to the Company's Registration Statement on Form SB-2 (File No. 33-83072) and incorporated herein by reference thereto.
++	Previously filed as exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 1997 and incorporated herein by reference thereto.
+++	Previously filed as exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended January 31, 1998 and incorporated herein by reference thereto.
++++	Previously filed as exhibits to the Company's Annual Report on Form 10-K for the year ended July 31, 2000 and incorporated herein by reference

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thereto.

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- +++++ Previously filed as exhibits to the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2000 and incorporated herein by reference thereto.
  
- ^ Previously filed as exhibits to the Company's Registration Statement on Form S-1 (File No. 333-38136) and incorporated herein by reference thereto.
  
- ^^ Previously filed as exhibits to the Company's Registration Statement on Form S-1 (File No. 333-89166) and incorporated herein by reference thereto.
  
- ^^^ Previously filed as exhibits to the Company's Annual Report on Form 10-K for the year ended July 31, 2002 and incorporated herein by reference thereto.
  
- # Previously filed as exhibits to the Company's Annual Report on Form 10-KSB for the year ended July 31, 1995 and incorporated herein by reference thereto.
  
- ## Previously filed as exhibits to the Company's Registration Statement on Form SB-2 (File No. 333-11575) and incorporated herein by reference thereto.
  
- ### Previously filed as exhibits to the Company's Quarterly Report on Form 10-QSB for the quarter ended April 30, 1997 and incorporated herein by reference thereto.
  
- #### Previously filed as exhibits to the Company's Annual Report on Form 10-K for the year ended July 31, 1999 and incorporated herein by reference thereto.
  
- ##### Filed herewith.
  
- (b) Reports on Form 8-K.

On February 4, 2003, we filed a report on Form 8-K which reported under Item 5 thereof the resignation of Stanislaw M. Mikulski, M.D., F.A.C.P. as Executive Vice President, Medical Director and member of the Board of Directors of Alfacell, effective as of January 7, 2003 and the appointment of Dr. Paul Weiss, Ph.D. to Alfacell's Board of Directors effective as of February 3, 2003.

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### SIGNATURES

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 thereunto duly authorized.

ALFACELL CORPORATION  
(Registrant)

March 17, 2003

/s/ KUSLIMA SHOGEN



-----  
Kuslima Shogen, Chief Executive  
Officer, Acting Chief Financial  
Officer (Principal Executive  
Officer, Principal Accounting  
Officer) and Chairman of the  
Board

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CERTIFICATIONS

I, Kuslima Shogen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alfacell Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective

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actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003

/s/ Kuslima Shogen

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Name: Kuslima Shogen  
Title: Chief Executive Officer  
and Chairman of the Board

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CERTIFICATIONS

I, Kuslima Shogen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alfacell Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal

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

Date: March 17, 2003

/s/ Kuslima Shogen

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Name: Kuslima Shogen  
Title: Acting Chief Financial  
Officer

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