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ALFACELL CORP  
Form 10-Q  
June 14, 2001

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

April 30, 2001  
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  
incorporation or 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 X No

The number of shares of common stock, \$.001 par value, outstanding as of June 11, 2001 was 18,942,246 shares.

ALFACELL CORPORATION  
(A Development Stage Company)

PART I. FINANCIAL INFORMATION  
Item 1. Financial Statements

BALANCE SHEETS  
April 30, 2001 and July 31, 2000

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|   | April 30,<br>2001<br>(Unaudited) | Jul<br>20 |
|---|----------------------------------|-----------|
|   | -----                            | -----     |
| ASSETS  |                                  |           |
| Current assets:   |                                  |           |
| Cash and cash equivalents   | \$ 359,767                       | \$ 2      |
| Other assets  | 38,704                           |           |
|   | -----                            | -----     |
| Total current assets  | 398,471                          | 2         |
| Property and equipment, net of accumulated depreciation and amortization<br>of \$1,063,346 at April 30, 2001 and \$1,006,808 at July 31, 2000                             | 85,631                           | 1         |
| Other assets  | 59,867                           |           |
|   | -----                            | -----     |
| Total assets  | \$ 543,969                       | \$ 4      |
|   | =====                            | =====     |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)   |                                  |           |
| Current liabilities:  |                                  |           |
| Current portion of long-term debt   | \$ 7,100                         | \$        |
| Note payable - convertible debt - related party, less debt discount   | 218,670                          |           |
| Note payable - convertible debt - unrelated party, less debt discount   | 54,668                           |           |
| Accounts payable  | 349,265                          | 1         |
| Accrued expenses  | 474,261                          | 4         |
|   | -----                            | -----     |
| Total current liabilities   | 1,103,964                        | 5         |
| Long-term debt, less current portion  | 25,896                           |           |
|   | -----                            | -----     |
| Total liabilities   | 1,129,860                        | 6         |
|   | -----                            | -----     |
| Commitments and contingencies   |                                  |           |
| Stockholders' equity (deficiency):  |                                  |           |
| Preferred stock, \$.001 par value   |                                  |           |
| Authorized and unissued, 1,000,000 shares at April 30, 2001<br>and July 31, 2000  | --                               |           |
| Common stock \$.001 par value   |                                  |           |
| Authorized 40,000,000 shares at April 30, 2001 and July 31,<br>2000; Issued and outstanding 18,942,246 shares at April 30,<br>2001 and 18,431,559 shares at July 31, 2000 | 18,942                           |           |
| Capital in excess of par value  | 57,382,825                       | 56,5      |
| Common stock to be issued, 222,222 shares at April 30, 2001   | 200,000                          |           |
| Deficit accumulated during development stage  | (58,187,658)                     | (56,6     |
|   | -----                            | -----     |
| Total stockholders' equity (deficiency)   | (585,891)                        | (1        |
|   | -----                            | -----     |
| Total liabilities and stockholders' equity (deficiency)   | \$ 543,969                       | \$ 4      |
|   | =====                            | =====     |

See accompanying notes to financial statements.

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## ALFACELL CORPORATION (A Development Stage Company)

### STATEMENTS OF OPERATIONS

Three months and nine months ended April 30, 2001 and 2000,  
and the Period from August 24, 1981  
(Date of Inception) to April 30, 2001

|  | (Unaudited)                     |              |                                |                |
|--|---------------------------------|--------------|--------------------------------|----------------|
|  | Three Months Ended<br>April 30, |              | Nine Months Ended<br>April 30, |                |
|  | 2001                            | 2000         | 2001                           | 2000           |
|  | -----                           | -----        | -----                          | -----          |
| REVENUE:   |                                 |              |                                |                |
| Sales  | \$     --                       | \$     --    | \$     --                      | \$     --      |
| Investment income                                | 1,450                           | 12,986       | 8,219                          | 39,206         |
| Other income                                     | --                              | --           | --                             | --             |
|  | -----                           | -----        | -----                          | -----          |
| TOTAL REVENUE                                    | 1,450                           | 12,986       | 8,219                          | 39,206         |
|  | -----                           | -----        | -----                          | -----          |
| COSTS AND EXPENSES:                              |                                 |              |                                |                |
| Cost of sales                                    | --                              | --           | --                             | --             |
| Research and development                         | 526,716                         | 602,807      | 1,404,552                      | 1,767,128      |
| General and administrative                       | 193,788                         | 137,497      | 519,240                        | 443,479        |
| Interest:  |                                 |              |                                |                |
| Related parties                                  | 32,110                          | --           | 32,110                         | --             |
| Others   | 11,023                          | 872          | 14,791                         | 2,600          |
|  | -----                           | -----        | -----                          | -----          |
| TOTAL COSTS AND EXPENSES                         | 763,637                         | 741,176      | 1,970,693                      | 2,213,207      |
|  | -----                           | -----        | -----                          | -----          |
| NET LOSS BEFORE<br>STATE TAX BENEFIT             | \$ (762,187)                    | \$ (728,190) | \$ (1,962,474)                 | \$ (2,174,001) |
| STATE TAX BENEFIT                                | --                              | --           | 451,395                        | 755,854        |
|  | -----                           | -----        | -----                          | -----          |
| NET LOSS   | \$ (762,187)                    | \$ (728,190) | \$ (1,511,079)                 | \$ (1,418,147) |
|  | =====                           | =====        | =====                          | =====          |
| Loss per basic and diluted<br>common share       | \$     (.04)                    | \$     (.04) | \$     (.08)                   | \$     (.08)   |
|  | =====                           | =====        | =====                          | =====          |
| Weighted average number of shares<br>outstanding | 18,911,660                      | 18,116,726   | 18,802,114                     | 17,603,454     |
|  | =====                           | =====        | =====                          | =====          |

See accompanying notes to financial statements.

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ALFACELL CORPORATION  
(A Development Stage Company)

STATEMENTS OF CASH FLOWS

Nine months ended April 30, 2001 and 2000,  
and the Period from August 24, 1981  
(Date of Inception) to April 30, 2001

(Unaudited)

|  | Nine Months Ended<br>April 30,<br>2001 | 2000        | August 24, 1981<br>(Date of Inception)<br>to April 30, 2001 |
|--|--|-------------|---|
| Cash flows from operating activities:  |  |             |   |
| Net loss   | \$(1,511,079)                          | (1,418,147) | (58,183)  |
| Adjustments to reconcile net loss to<br>net cash used in operating activities: |  |             |   |
| Gain on sale of marketable securities  | --                                     | --          | (2,343)   |
| Depreciation and amortization  | 56,538                                 | 71,227      | 1,473   |
| Loss on disposal of property and equipment                                     | --                                     | --          | 1,400   |
| Noncash operating expenses   | 168,360                                | 112,459     | 5,683   |
| Amortization of deferred compensation  | --                                     | --          | 11,443  |
| Amortization of organization costs   | --                                     | --          |   |
| Changes in assets and liabilities:   |  |             |   |
| Increase in other current assets   | (10,087)                               | (19,145)    | (9,343)   |
| Decrease in other assets   | --                                     | --          | 3,400   |
| Increase in interest payable, related party                                    | --                                     | --          | 743   |
| Increase in accounts payable   | 188,507                                | 152,690     | 643   |
| Increase in accrued payroll and expenses, related party                        | --                                     | --          | 2,343   |
| Increase (decrease) in accrued expenses  | 62,415                                 | (35,810)    | 1,013   |
| Net cash used in operating activities  | (1,045,346)                            | (1,136,726) | (34,893)  |
| Cash flows from investing activities:  |  |             |   |
| Purchase of marketable equity securities                                       | --                                     | --          | (29,343)  |
| Proceeds from sale of marketable equity<br>securities                          | --                                     | --          | 31,400  |
| Purchase of property and equipment   | --                                     | --          | (1,400)   |
| Patent costs   | --                                     | --          | (9,343)   |
| Net cash used in investing activities  | --                                     | --          | (1,473)   |

See accompanying notes to financial statements. (continued)

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ALFACELL CORPORATION  
(A Development Stage Company)

STATEMENTS OF CASH FLOWS, Continued

Nine months ended April 30, 2001 and 2000,  
and the Period from August 24, 1981  
(Date of Inception) to April 30, 2001

(Unaudited)

|  | Nine Months Ended<br>April 30, |           | Au<br>(Dat |
|--|--------------------------------|-----------|------------|
|  | 2001                           | 2000      | A          |
|  | -----                          | -----     |            |
| Cash flows from financing activities:  |                                |           |            |
| Proceeds from short-term borrowings  | \$     --                      | --        |            |
| Payment of short-term borrowings   | --                             | --        |            |
| Increase in loans payable - related party, net   | --                             | --        |            |
| Proceeds from bank debt and other long-term debt, net of deferred debt costs                       | --                             | --        |            |
| Reduction of bank debt and long-term debt  | (4,329)                        | (6,263)   |            |
| Proceeds from issuance of common stock, net  | 501,274                        | 613,653   |            |
| Proceeds from exercise of stock options and warrants, net  | 83,730                         | 41,337    |            |
| Proceeds from issuance of convertible debentures   | --                             | --        |            |
| Proceeds from issuance of convertible debt - related party   | 297,000                        | --        |            |
| Proceeds from issuance of convertible debt - unrelated party                                       | 69,993                         | --        |            |
| Proceeds from common stock to be issued  | 200,000                        | --        |            |
|  | -----                          | -----     |            |
| Net cash provided by financing activities  | 1,147,668                      | 648,727   |            |
|  | -----                          | -----     |            |
| Net increase (decrease) in cash and cash equivalents   | 102,322                        | (487,999) |            |
| Cash and cash equivalents at beginning of period   | 257,445                        | 1,383,133 |            |
|  | -----                          | -----     |            |
| Cash and cash equivalents at end of period   | \$ 359,767                     | 895,134   |            |
|  | =====                          | =====     |            |
| Supplemental disclosure of cash flow information - interest paid                                   | \$ 6,763                       | 2,600     |            |
|  | =====                          | =====     |            |
| 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   | \$     --                      | --        |            |

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|   |           |        |
|---|-----------|--------|
| Conversion of accrued interest to stock options   | \$ --     | --     |
| Conversion of accounts payable to common stock  | \$ 10,030 | 92,184 |
| 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  | \$ --     | --     |
| Issuance of common stock for services rendered  | \$ --     | --     |

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 April 30, 2001 and the results of operations for the three and nine month periods ended April 30, 2001 and 2000 and the period from August 24, 1981 (date of inception) to April 30, 2001. The results of operations for the nine months ended April 30, 2001 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.

Effective August 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, or SFAS 130, Reporting Comprehensive Income. SFAS 130 establishes new rules for the reporting and display of comprehensive income and its components. The net loss of \$1,511,000 and \$1,418,000, recorded for the nine months ended April 30, 2001 and 2000, respectively, is equal to the comprehensive loss for those periods.

The Company has reported net losses since its inception. Also, the Company has limited liquid resources. The report of the Company's independent auditors on the Company's July 31, 2000 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

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ability to continue as a going concern. The financial statements at July 31, 2000 or April 30, 2001 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) and

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### ALFACELL CORPORATION (A Development Stage Company)

#### NOTES TO FINANCIAL STATEMENTS, continued

(Unaudited)

#### 1. ORGANIZATION AND BASIS OF PRESENTATION, continued

its ability to realize the full potential of its technology and its drug candidates. 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. The Company believes that its cash and cash equivalents as of April 30, 2001 will be sufficient to meet its anticipated cash needs through fiscal year ending July 31, 2001. However, until the Company's operations generate significant revenues, the Company will continue to fund its operations from cash on hand and through the sources of capital previously described.

#### 2. EARNINGS (LOSS) PER COMMON SHARE

"Basic" earnings (loss) per common share equals net income (loss) divided by weighted average common shares outstanding during the period. "Diluted" earnings (loss) per common share equals net income divided by the sum of weighted average common shares outstanding during the period plus common stock equivalents. The 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 5,604,599 and 6,180,945 at April 30, 2001 and 2000, respectively.

#### 3. NOTE PAYABLE - CONVERTIBLE DEBT

In April 2001, the Company entered into a convertible note payable with certain related and unrelated parties in the aggregate amount of \$366,993. The note is due within ninety (90) days unless the lenders elect to exercise an option to convert the note into Alfacell common stock, par value \$.001 per share, at a conversion price of \$0.90 per share (the estimated fair market value of the stock on the loan date). In addition, upon conversion, the lender would receive a three-year warrant for each share of converted Alfacell common stock at an exercise price of \$2.50 per share that will expire on July 7, 2004. The estimated value of the warrant has been treated as a debt discount which will accrete as interest expense over the ninety day note term.

ALFACELL CORPORATION  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, continued

(Unaudited)

4. CAPITAL STOCK

In August 2000, the Company issued 11,800 shares of common stock for payment of services rendered. The fair value of the common stock in the amount of \$10,030 was charged to operations.

In August and September 2000, the Company sold an aggregate of 333,332 shares of common stock to private investors at a price of \$1.50 per share resulting in net proceeds of \$501,000 to the Company. In addition, the private investors were granted five-year warrants to purchase an aggregate of 166,666 shares of common stock at a per share exercise price of \$3.00.

In September 2000, the Company issued 40,000 shares of common stock upon the exercise of stock options by a related party resulting in gross proceeds of \$16,100 to the Company.

In January 2001, the Company issued 70,000 shares of common stock upon the exercise of stock options by related parties resulting in gross proceeds of \$30,500 to the Company.

In March 2001, the Company issued 55,555 shares of common stock upon the exercise of stock options by a related party resulting in gross proceeds of \$37,100 to the Company.

In April 2001, the Company issued 50,000 five-year stock options to a director as payment for non-board related services over the past 18 months. These options vested immediately and have an exercise price of \$0.90 per share. The Company recorded general and administrative expense of \$31,600 which was the fair market value of the options on the date of issuance. In addition, the director will receive a contingent award of 50,000 shares of the Company's common stock should the Company complete a strategic partnership or receive an investment from the prospective partner or one of its affiliates.

In April 2001, the Company sold 222,222 shares of common stock to a private investor at a price of \$0.90 per share resulting in gross proceeds of \$200,000 to the Company. In addition, the private investor was granted three-year warrants to purchase an aggregate of 222,222 shares of common stock at a per share exercise price of \$2.50 that will expire on July 7, 2004. The stock certificate for the shares will be issued in June 2001.

5. SALE OF NET OPERATING LOSSES

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 2001 (July 1, 2000 to June 30, 2001), the Company has \$1,774,000 total available tax benefits of which \$602,000 was allocated to be sold between July 1, 2000 and June 30, 2001. In December 2000, the Company received \$451,000 from the sale of its allocated tax benefits which was recognized as a tax benefit for the quarter

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ended October 31, 2000. The Company will attempt to sell the remaining balance of its tax benefits in the amount of approximately \$1,172,000 between July 1, 2001 and June 30, 2002, 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.

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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 "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 assure that the future results covered by these forward-looking statements will be achieved. The matters set forth in Exhibit 99.1 hereto 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 nine month periods ended April 30, 2001 and 2000

**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 nine months ended April 30, 2001 and 2000. Investment income for the nine months ended April 30, 2001 was \$8,000 compared to \$39,000 for the same period last year, a decrease of \$31,000. This decrease was due to lower balances of cash and cash equivalents.

**Research and Development.** Research and development expense for the three months ended April 30, 2001 was \$527,000 compared to \$603,000 for the same period last year, a decrease of \$76,000 or 13%. This decrease was primarily due to a 65% decrease in expenses in preparation for a Pre-NDA meeting with the FDA and a 13% decrease in costs in support of on-going Phase III clinical trials for ONCONASE(R) for malignant mesothelioma. These decreases were offset by an 11% increase in personnel costs and a 147% increase in expenses associated with new patent and trademark applications for ONCONASE(R).

Research and development expense for the nine months ended April 30, 2001 was \$1,404,000 compared to \$1,767,000 for the same period last year, a decrease of \$363,000 or

21%. This decrease was primarily due to a 57% decrease in expenses in preparation for a Pre-NDA meeting with the FDA, a 38% decrease in costs in support of on-going Phase III clinical trials for ONCONASE(R) for malignant mesothelioma and a 19% decrease in expenses associated with new patent and trademark applications for ONCONASE(R). These decreases were offset by a 4% increase in personnel costs.

General and Administrative. General and administrative expense for the three months ended April 30, 2001 was \$194,000 compared to \$137,000 for the same period last year, an increase of \$57,000 or 42%. This increase was primarily due to a \$32,000 increase in non-cash expense relating to stock options issued for consulting services, a \$12,000 increase in costs related to public relations activities and a 20% increase in personnel costs.

General and administrative expense for the nine months ended April 30, 2001 was \$519,000 compared to \$443,000 for the same period last year, an increase of \$76,000 or 17%. This increase was primarily due to a \$27,000 increase in costs related to public relations activities, a 16% increase in personnel costs and a 38% increase in non-cash expense relating to stock options issued for consulting services.

Interest expense for the three months ended April 30, 2001 was \$43,000 compared to \$1,000 for the same period last year, an increase of \$42,000. The increase was primarily due to the interest expense on the convertible note and its attached warrants, by both related and unrelated parties. The interest expense was based on the value of the warrants using the Black-Scholes pricing model, amortized on a straight-line basis over the ninety day life of the note.

Interest expense for the nine months ended April 30, 2001 was \$47,000 compared to \$3,000 for the same period last year, an increase of \$44,000. The increase was due to the interest expense on the convertible note and its attached warrants, by both related and unrelated parties. The interest expense was based on the value of the warrants using the Black-Scholes pricing model, amortized on a straight-line basis over the ninety day life of the note.

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 2001 (July 1, 2000 to June 30, 2001), our company has \$1,774,000 total available tax benefits of which \$602,000 was allocated to be sold between July 1, 2000 and June 30, 2001. In December 2000, we received \$451,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the quarter ended October 31, 2000. We will attempt to sell the remaining balance of our tax benefits in the amount of approximately \$1,172,000 between July 1, 2001 and June 30, 2002, 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 April 30, 2001 was \$762,000 as compared to a net loss of \$728,000 for the same period last year, an increase of \$34,000 or 5%. The net loss for the nine months ended April

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30, 2001 was \$1,511,000 as compared to \$1,418,000 for the same period last year, an increase of \$93,000 or 7%. The cumulative loss from the date of inception, August 24, 1981 to April 30, 2001, amounted to \$58,188,000. 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

We have financed our operations since inception primarily through equity and debt financing, research product sales and interest income. During the nine months ended April 30, 2001, we had a net increase in cash and cash equivalents of \$103,000, which resulted primarily from net cash provided by financing activities of \$1,148,000, primarily from the private placement of common stock and warrants, proceeds from the issuance of convertible note and proceeds from the exercise of stock options, offset by net cash used in operating activities of \$1,045,000. Total cash resources as of April 30, 2001 were \$360,000 compared to \$257,000 at July 31, 2000.

Our current liabilities as of April 30, 2001 were \$1,104,000 compared to \$590,000 at July 31, 2000, an increase of \$514,000. The increase was primarily due to the short-term convertible note payable by both related and unrelated parties and due to an increase in accounts payable.

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) and our ability to realize the full potential of our technology and our drug candidates. 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 financing and financing provided by our Chief Executive Officer. Additionally, we have raised capital through the sale of our tax benefits. We believe that our cash and cash equivalents as of April 30, 2001 will be sufficient to meet our anticipated cash needs through fiscal year ending July 31, 2001. However, until our operations generate significant revenues, we will continue to fund operations from cash on hand and through the sources of capital previously described. The report of our independent auditors on our July 31, 2000 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. Our financial statements at July 31, 2000 and April 30, 2001 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 companies, to further the development and marketing of ONCONASE(R) and other related products in our pipeline. However, we cannot assure you that any such alliances will materialize. We intend to seek marketing approvals for

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ONCONASE(R) for the treatment of malignant mesothelioma in foreign territories. In February 2001, we received an Orphan Medicinal Product Designation for ONCONASE(R) with the European Agency for the Evaluation of Medicinal Products, or EMEA. Currently, we are in discussion with a number of European regulatory agencies on the proposed registration requirements for the malignant mesothelioma indication. Simultaneously, we are in the process of expanding our clinical program in Europe (initially, Germany and Italy). However, we cannot assure you that marketing approval for ONCONASE(R) as a treatment for malignant mesothelioma will be granted.

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 2001 (July 1, 2000 to June 30, 2001), our company has \$1,774,000 total available tax benefits of which \$602,000 was allocated to be sold between July 1, 2000 and June 30, 2001. In December 2000, we received \$451,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the quarter ended October 31, 2000. We will attempt to sell the remaining balance of our tax benefits in the amount of approximately \$1,172,000 between July 1, 2001 and June 30, 2002, 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". 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

Not applicable.

## PART II. OTHER INFORMATION

### Item 2. (c) Recent Sales of Unregistered Securities

In March 2001, we issued 55,555 shares of common stock upon the exercise of stock options by a related party resulting in gross proceeds of \$37,100, in a transaction consummated as a private sale pursuant to Section 4(2) of the Securities Act of 1933, as amended.

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

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

| Exhibit<br>No.<br>----- | Item Title<br>-----  | Exhibit No. or<br>Incorporation<br>by Reference<br>----- |
|-------------------------|--|--|
| 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                      | ***  |
| 10.4                    | Form of Stock and Warrant Purchase Agreement and Warrant Agreement used in 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                    | Debt Conversion Agreement dated March 30, 1994 with John Schierloh   | ****   |
| 10.10                   | Option Agreement dated March 30, 1994 with Kuslima Shogen  | ****   |
| 10.11                   | Option Agreement dated March 30, 1994 with Kuslima Shogen  | ****   |
| 10.12                   | Amendment No. 1 dated June 20, 1994 to Option Agreement dated March 30, 1994 with Kuslima Shogen                         | ****   |
| 10.13                   | Form of Amendment No. 1 dated June 20, 1994 to Option Agreement dated March 30, 1994 with Kuslima Shogen                 | *****  |
| 10.14                   | Form of Amendment No. 1 dated June 20, 1994 to Option Agreement dated March 30, 1994 with Stanislaw Mikulski             | *****  |

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| Exhibit<br>No.<br>----- | Item Title<br>-----  | Exhibit No. or<br>Incorporation<br>by Reference<br>----- |
|-------------------------|--|--|
| 10.15                   | Form of Stock and Warrant Purchase Agreement and Warrant Agreement used in Private Placement completed on September 13, 1994 | +  |
| 10.16                   | Form of Subscription Agreements and Warrant Agreement used in Private Placements closed in October 1994 and September 1995   | #  |
| 10.17                   | Common Stock Purchase Agreement by and between the Company and Digital Creations, Inc. dated March 3, 1997                   | ###  |
| 10.18                   | 1997 Stock Option Plan   | ###  |
| 10.19                   | Separation Agreement with Michael C. Lowe dated as of October 9, 1997  | ++   |
| 10.20                   | Form of Subscription Agreement and Warrant Agreement used in Private Placement completed on February 20, 1998                | +++  |
| 10.21                   | Form of Warrant Agreement issued to the Placement Agent in   |  |

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|        |  |       |
|--------|--|-------|
|        | connection with the Private Placement completed on February 20, 1998   | +++   |
| 10.22  | Placement Agent Agreement dated December 15, 1997  | +++   |
| 10.23  | Separation Agreement with Gail Fraser dated August 31, 1999  | ++++  |
| 10.24  | Form of Subscription Agreement and Warrant Agreement used in the August and September 2000 Private Placement   | +++++ |
| 99.1   | Factors to Consider in Connection with Forward-Looking Statements  | ####  |
|        |  |       |
| *      | 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.                   |       |
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|        |  |       |
| +      | 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, 1999 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, 2000 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                        |       |

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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.

#### Filed herewith.

(b) Reports on Form 8-K.

On May 21, 2001, we filed a report on Form 8-K stating that the Board of Directors extended the expiration date of warrants to purchase an aggregate of 1,168,575 shares of common stock issued in the 1998 private placement, from May 19, 2001 to August 17, 2001. In addition, we also extended the expiration date of 114,708 warrants to purchase units consisting of (i) an aggregate of 229,416 shares of common stock and (ii) warrants to purchase an aggregate of 116,208 shares of common stock issued to the placement agent in the 1998 private placement from May 19, 2001 to August 17, 2001.

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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)

June 14, 2001

/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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