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ALFACELL CORP
Form 10-Q
June 14, 2002

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

FORM 10-Q

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

April 30, 2002
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 incorporation or 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

The number of shares of common stock, \$.001 par value, outstanding as of June 12, 2002 was 22,389,207 shares.

ALFACELL CORPORATION
(A Development Stage Company)

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

BALANCE SHEETS
April 30, 2002 and July 31, 2001

ASSETS

Current assets:

April
200
(Unaud

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Cash and cash equivalents	\$	4
Other assets		3

Total current assets		8
Property and equipment, net of accumulated depreciation and amortization of \$1,112,987 at April 30, 2002 and \$1,081,423 at July 31, 2001		3
Other assets		6

Total assets	\$	18
		=====
LIABILITIES AND STOCKHOLDERS' (DEFICIENCY)		
Current liabilities:		
Current portion of long-term debt	\$	
Notes payable - convertible debt - unrelated party, less debt discount of \$34,511 at July 31, 2001		
Accounts payable		78
Accrued expenses		64
Loan payable related party		12

Total current liabilities		1,56
Long-term debt, less current portion		11

Total liabilities		1,68

Stockholders' (deficiency):		
Preferred stock, \$.001 par value		
Authorized and unissued, 1,000,000 shares at April 30, 2002 and July 31, 2001		
Common stock \$.001 par value		
Authorized 40,000,000 shares at April 30, 2002 and July 31, 2001;		
Issued and outstanding, 21,866,423 shares at April 30, 2002 and 19,802,245 shares at July 31, 2001		2
Capital in excess of par value		59,32
Deficit accumulated during development stage		(60,83

Total stockholders' (deficiency)		(1,49

Total liabilities and stockholders' (deficiency)	\$	18
		=====

See accompanying notes to unaudited financial statements.

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ALFACELL CORPORATION
(A Development Stage Company)

STATEMENTS OF OPERATIONS

Three months and nine months ended April 30, 2002 and 2001,
and the Period from August 24, 1981
(Date of Inception) to April 30, 2002

(Unaudited)

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	Three Months Ended April 30,		Nine Months Ended April 30,	
	2002	2001	2002	2001
Revenue:				
Sales	\$ --	\$ --	\$ --	\$ --
Investment income	125	1,450	282	1,450
Other income	--	--	--	--
Total revenue	125	1,450	282	1,450
Costs and expenses:				
Cost of sales	--	--	--	--
Research and development	531,904	526,716	1,539,885	1,539,885
General and administrative	192,991	193,788	576,605	576,605
Interest:				
Related parties	--	32,110	--	32,110
Others	67,999	11,023	105,517	11,023
Total costs and expenses	792,894	763,637	2,222,007	1,760,623
Net loss before state tax benefit	(792,769)	(762,187)	(2,221,725)	(1,328,533)
State tax benefit	--	--	353,730	--
Net loss	\$ (792,769)	\$ (762,187)	\$ (1,867,995)	\$ (1,328,533)
Loss per basic and diluted common share	\$ (.04)	\$ (.04)	\$ (.09)	\$ (.04)
Weighted average number of shares outstanding	21,020,967	18,911,660	20,553,185	18,911,660

See accompanying notes to unaudited financial statements.

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ALFACELL CORPORATION
(A Development Stage Company)

STATEMENTS OF CASH FLOWS

Nine months ended April 30, 2002 and 2001,
and the Period from August 24, 1981
(Date of Inception) to April 30, 2002

(Unaudited)

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	Nine Months Ended April 30, -----		August 24, 19 (Date of Incep to April 30, 20 -----
	2002 ----	2001 ----	
Cash flows from operating activities:			
Net loss	\$ (1,867,995)	\$ (1,511,079)	\$ (60,839,51
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on sale of marketable securities	--	--	(25,96
Depreciation and amortization	31,564	56,538	1,524,02
Loss on disposal of property and equipment	--	--	18,92
Noncash operating expenses	190,783	168,360	6,014,88
Amortization of deferred compensation	--	--	11,442,00
Amortization of organization costs	--	--	4,59
Changes in assets and liabilities:			
Decrease (increase) in other current assets	4,812	(10,087)	(97,98
(Increase) decrease in other assets	(17,927)	--	31,78
Increase in interest payable-related party	--	--	744,53
Increase in accounts payable	423,164	188,507	1,129,24
Increase in accrued payroll and expenses, related parties	--	--	2,348,14
Increase in accrued expenses	179,871	62,415	1,187,19
Net cash used in operating activities	(1,055,728)	(1,045,346)	(36,518,12
Cash flows from investing activities:			
Purchase of marketable equity securities	--	--	(290,42
Proceeds from sale of marketable equity Securities	--	--	316,38
Purchase of property and equipment	--	--	(1,406,83
Patent costs	--	--	(97,84
Net cash used in investing activities	--	--	(1,478,71

(continued)

See accompanying notes to unaudited financial statements.

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ALFACELL CORPORATION
(A Development Stage Company)

STATEMENTS OF CASH FLOWS, Continued

Nine months ended April 30, 2002 and 2001,
and the Period from August 24, 1981
(Date of Inception) to April 30, 2002

(Unaudited)

Nine Months Ended
April 30,

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	2002	2001
	-----	-----
Cash flows from financing activities:		
Proceeds from short-term borrowings	\$ --	\$ --
Payment of short-term borrowings	(5,000)	
Increase in loans payable - related party, net	126,553	
Proceeds from bank debt and other long-term debt, net of deferred debt costs	100,000	
Reduction of bank debt and long-term debt	(4,719)	(4,719)
Proceeds from issuance of common stock, net	789,629	501,000
Proceeds from exercise of stock options and warrants, net	50,000	83,000
Proceeds from issuance of convertible debentures, related party	--	297,000
Proceeds from issuance of convertible debentures, unrelated party	--	69,000
Proceeds from common stock to be issued	--	200,000
	-----	-----
Net cash provided by financing activities	1,056,463	1,147,000
	-----	-----
Net increase in cash and cash equivalents	735	102,000
Cash and cash equivalents at beginning of period	44,781	257,000
	-----	-----
Cash and cash equivalents at end of period	\$ 45,516	\$ 359,000
	=====	=====
Supplemental disclosure of cash flow information - interest paid	\$ 6,971	\$ 6,000
	=====	=====
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	\$ 50,000	\$ 10,000
	=====	=====
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	\$ 64,993	\$ --
	=====	=====
Issuance of common stock for services rendered	\$ --	\$ --
	=====	=====

See accompanying notes to unaudited 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, 2002 and the results of operations for the three and nine month periods ended April 30, 2002 and 2001 and the period from August 24, 1981 (date of inception) to April 30, 2002. The results of operations for the nine months ended April 30, 2002 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 ("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 \$1,868,000 and \$1,511,000 recorded for the nine months ended April 30, 2002 and 2001, 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 accountants on the Company's July 31, 2001 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, 2001 and April 30, 2002 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 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. Until the Company's operations generate significant revenues, the Company will need to continue to fund operations through the sources of capital previously described. From August 2001 through May 2002, the Company received gross proceeds of approximately \$1,346,000 from the private placement of equity from various individual investors, issuance of notes payable to unrelated parties and the exercise of warrants by an unrelated party. The Company also has

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION, Continued

received from time to time loans payable on demand from a related party. As of April 30, 2002 the aggregate balance of these loans was \$126,500. Additionally, in December 2001 the Company received \$354,000 through the sale of its tax benefits. As the Company has no liquid resources and significant liabilities, it needs to raise additional capital in order to remain in operation. The Company believes its current operating levels require \$160,000 of cash per month. The Company does not presently maintain the cash balance needed to fund its operations; however, to date it has been able to meet the cash needed for continued operations. In the near term, management continues to seek additional capital financing through the sales of equity in private placements and exercise of warrants but cannot be sure that it will be able to raise capital on favorable terms or at all. In addition, the Company expects some funds to be available through loans from its Chief Executive Officer, although no such loans are required to be made. Once any of these sources, if received, are exhausted, the Company will need additional financing through the sources described above to continue its operations. There is no assurance these funds will be received; however, if the funds are received it will assist in satisfying the Company's liquidity needs.

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 8,458,511 and 5,604,599 at April 30, 2002 and 2001, respectively.

3. LOAN PAYABLE, RELATED PARTY

From August 2001 to April 2002, Kuslima Shogen the Company's Chief Executive Officer, loaned the Company some amounts payable upon demand bearing an interest at 8% per annum. As of April 30, 2002, the loan balance was \$126,500.

4. CAPITAL STOCK

In August 2001, the Company issued 55,556 shares of common stock in settlement of accounts payable. In addition, the vendor was granted five-year warrants to purchase 55,556 shares of common stock at an exercise price of \$1.50 per share. The settled accounts payable totaled \$50,000 and therefore that amount has been charged to equity as the value of the stock and warrants.

In August 2001, the Company issued 70,000 five-year stock options as payment for services to be rendered. The options vested immediately and have an exercise price of \$0.75 per share. The total non-cash general and administrative expense recorded for these options was \$35,770, based upon the fair value of such option on the date of issuance.

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ALFACELL CORPORATION (A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

(Unaudited)

4. CAPITAL STOCK, Continued

During the quarter ended October 31, 2001, the Company sold an aggregate of 440,000 shares of common stock to private investors at a price of \$0.50 to \$0.90 per share resulting in net proceeds of \$252,000 to the Company. In addition, the private investors were granted five-year warrants to purchase an aggregate of 440,000 shares of common stock at an exercise price of \$1.50 per share.

In October 2001, the Company issued 72,214 shares of common stock upon the exercise of convertible debentures by unrelated parties. In addition, upon conversion, the unrelated parties were granted five-year warrants to purchase 72,214 shares of common stock at \$1.50 per share.

In December 2001, the Company issued 15,221 five-year stock options as payment for services rendered. The options vested immediately and have an exercise price of \$0.94 per share. The total non-cash research and development expense recorded for these options was \$4,977, based upon the fair value of such option on the date of issuance as estimated by the Black-Scholes options-pricing model.

During the quarter ended January 31, 2002, the Company sold an aggregate of 359,070 shares of common stock to private investors at a price of \$0.50 per share resulting in net proceeds of \$162,200 to the Company. In addition, the private investors were granted five-year warrants to purchase an aggregate of 409,070 shares of common stock at an exercise price of \$1.50 per share.

In February 2002, the Company issued warrants to purchase 1,500,000 shares of common stock to Roan Meyers Associates L.P. for an aggregate warrant purchase price of \$1,500 in connection with the engagement of Roan Meyers to render advisory services. Roan Meyers has already exercised warrants to purchase 100,000 shares of common stock in March 2002 with an exercise price of \$0.50 per share, resulting in gross proceeds of \$50,000 to the Company. Warrants to purchase an additional 400,000 shares are currently exercisable, of which 150,000 shares have an exercise price of \$0.50 per share and 250,000 have an exercise price of \$1.00 per share. The remaining 1,000,000 warrants will become exercisable if Roan Meyers is successful in helping the Company raise capital. For each \$1 million in capital financing raised with the assistance of Roan Meyers, 200,000 warrants will become exercisable up to 1,000,000 warrants in the aggregate. Of those 1,000,000 warrants, 400,000 are exercisable at \$1.00 per share and 600,000 are exercisable at \$1.50 per share. The Company recorded an expense equal to the fair market value of the first 500,000 warrants in February 2002 based upon the fair value of such warrants as estimated by Black-Scholes pricing model (\$153,300), less the \$1,500 received from the sale of the warrants and will record an expense on the additional warrants when they vest using Black-Scholes to estimate their value at that time.

In March 2002, the Company issued an aggregate of 75,000 five-year stock options to unrelated parties as an incentive for lending the Company an aggregate of \$75,000 which was repaid during the quarter. The options vested immediately and have an exercise price of \$1.50 per share. The total non-cash interest expense recorded for these options was \$25,615, based upon the fair

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value of such option on the date of issuance as estimated by the Black-Scholes options-pricing model.

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ALFACELL CORPORATION (A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

(Unaudited)

4. CAPITAL STOCK, Continued

In April 2002, the Company issued a note payable to an unrelated party in the amount of \$100,000. The note was due thirty days bearing interest at 8% per annum. In addition, the lender received stock options to purchase 100,000 shares of common stock at an exercise price of \$0.60 per share. The total non-cash interest expense recorded for these options was \$40,690, based upon the fair value of such option on the date of issuance as estimated by the Black-Scholes options-pricing model. In May 2002, the lender agreed to either extend the note until December 2003 or convert the note at a conversion price of \$0.40 per share plus a five-year warrant for each share of Alfacell common stock issued upon conversion at an exercise price of \$1.00 per share.

During the quarter ended April 30, 2002, the Company sold an aggregate of 1,038,638 shares of common stock to private investors at a price of \$0.44 to \$0.50 per share resulting in net proceeds of \$375,400 to the Company. In addition, the private investors were granted five-year warrants to purchase an aggregate of 1,038,638 shares of common stock at an exercise price of \$0.75 per share.

In May 2002, the Company issued 22,784 shares of common stock in settlement of accounts payable in the amount of \$14,126. The accounts payable amount was charged to equity as the value of the common stock.

In May 2002, the Company sold an aggregate of 500,000 shares of common stock to private investors resulting in net proceeds of \$200,000 to the Company. In addition, the private investors were granted five-year warrants to purchase an aggregate of 500,000 shares of common stock at an exercise price of \$1.00 per share.

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 2002 (July 1, 2001 to June 30, 2002), the Company has \$1,477,000 total available tax benefits of which \$426,000 was allocated to be sold between July 1, 2001 and June 30, 2002. In December 2001, the Company received \$354,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the nine months ended April 30, 2002. In December 2000, the Company received \$451,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the nine months ended April 30, 2001. The Company will attempt to sell the remaining balance of its tax benefits in the amount of approximately \$1,051,000 between July 1, 2002 and June 30, 2003, 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 be sure 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, 2002 and 2001

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 nine month periods ended April 30, 2002 and 2001. Investment income for the three months ended April 30, 2002, was \$100 compared to \$1,400 for the same period last year, a decrease of \$1,300. Investment income for the nine months ended April 30, 2002, was \$300 compared to \$8,200 for the same period last year, a decrease of \$7,900. These decreases were due to lower balances of cash and cash equivalents.

Research and Development. Research and development expense for the three months ended April 30, 2002 was \$532,000 compared to \$527,000 for the same period last year, an increase of \$5,000. This increase was primarily due to an increase in costs in support of the on-going Phase III clinical trials for ONCONASE(R) resulting from the expansion of our Phase III clinical trial for malignant mesothelioma in Europe, partially offset by a decrease in expenses related to outside consultants, a decrease in costs relating to patent and trademark applications for ONCONASE(R) and a reduction of non-cash expense relating to stock options issued for consulting services.

Research and development expense for the nine months ended April 30, 2002 was \$1,540,000 compared to \$1,405,000 for the same period last year, an increase of \$135,000. This increase was primarily due to an increase in costs in support of on-going Phase III clinical trial for ONCONASE(R) for malignant mesothelioma and an increase in cost of clinical supplies related to the clinical trials, both resulting from the expansion of our Phase III clinical trials for malignant mesothelioma in Europe. This increase was partially offset by a reduction of a non-cash expense relating to stock options issued for consulting services, a decrease in expenses related to outside consultants and an increase in patent

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and trademark applications for ONCONASE(R).

General and Administrative. General and administrative expense for the three months ended April 30, 2002 was \$193,000 compared to \$194,000 for the same period last year, a decrease of \$1,000. This decrease was primarily due to a reduction of a non-cash expense relating to stock options issued for

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consulting services, partially offset by an increase in public and investor relations expenses as well as an increase in legal expenses, due to business development activities.

General and administrative expense for the nine months ended April 30, 2002 was \$577,000 compared to \$519,000 for the same period last year, an increase of \$58,000. This increase was primarily due to an increase in public and investor relations expenses and an increase in legal expenses due to business development activities, partially offset by a reduction in a non-cash expense relating to stock options issued for consulting services.

Interest. Interest expense for the three months ended April 30, 2002 was \$68,000 compared to \$43,000 for the same period last year, an increase of \$25,000. Interest expense for the nine months ended April 30, 2002 was \$105,000 compared to \$47,000 for the same period last year, an increase of \$58,000. These increases were primarily due to the non-cash interest expense on the notes payable issued to third parties. The non-cash interest expense was based on the value of the options using the Black-Scholes options-pricing model at the date of the issuance.

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 2002 (July 1, 2001 to June 30, 2002), we have \$1,477,000 total available tax benefits of which \$426,000 was allocated to be sold between July 1, 2001 and June 30, 2002. In December 2001, we received \$354,000 from the sale of allocated tax benefits which was recognized as a tax benefit for the nine months ended April 30, 2002. In December 2000, we received \$451,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the nine months ended April 30, 2001. We will attempt to sell the remaining balance of our tax benefits in the amount of approximately \$1,051,000 between July 1, 2002 and June 30, 2003, 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, 2002 was \$793,000 as compared to \$762,000 for the same period last year, an increase of \$31,000. The net loss for the nine months ended April 30, 2002 was \$1,868,000 as compared to \$1,511,000 for the same period last year, an increase of \$357,000. The cumulative loss from the date of inception, August 24, 1981 to April 30, 2002, amounted to \$60,839,000. 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, 2002, we had a net increase in cash and cash equivalents of \$1,000, which resulted primarily from net cash provided by financing

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activities of \$1,057,000, primarily from the private placement of common stock and warrants and proceeds from short-term borrowings, offset by net cash used in operating activities of \$1,056,000. Total cash resources as of April 30, 2002 were \$46,000 compared to \$45,000 at July 31, 2001.

Our current liabilities as of April 30, 2002 were \$1,564,000 compared to \$918,000 at July 31, 2001, an increase of \$646,000. The increase was primarily due to an increase in expenses related to the expansion of our Phase III clinical trial for malignant mesothelioma in Europe and increasing business development, investor and public relations activities. As of April 30, 2002 our current liabilities exceeded our current assets and we had a working capital deficit of \$1,480,000.

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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. Until our operations generate significant revenues, we will need to continue to fund operations through the sources of capital previously described. From August 2001 through May 2002, we received gross proceeds of approximately \$1,346,000 from the private placement of equity from various individual investors, issuance of notes payable to unrelated parties and the exercise of warrants by an unrelated party. We have also received from time to time loans payable on demand from a related party. As of April 30, 2002 the aggregate balance of these loans was \$126,500. Additionally, in December 2001 we received \$354,000 through the sale of our tax benefits. As we have no liquid resources and significant liabilities, we need to raise additional capital in order to remain in operation. We believe our current operating levels require \$160,000 of cash per month. We do not presently maintain the cash balance needed to fund our operations; however, to date we have been able to meet the cash needed for continued operations.

In the near term we continue to seek additional capital financing through the sales of equity in private placements and exercise of warrants but cannot be sure that we will be able to raise capital on favorable terms or at all. In addition, we expect some funds to be available through loans from our Chief Executive Officer, although no such loans are required to be made. Once any of these sources, if received, are exhausted, we will need additional financing through the sources described above to continue our operations. We cannot be sure these funds will be received; however, if the funds are received it will assist us in satisfying our liquidity needs. The report of our independent auditors on our July 31, 2001 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, 2001 and April 30, 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

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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 2002 (July 1, 2001 to June 30, 2002), we had \$1,477,000 total available tax benefits of which \$426,000 was allocated to be sold between July 1, 2001 and June 30, 2002. In December 2001, we received \$354,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the nine months ended April 30, 2002. In December 2000, we received \$451,000 from the sale of the allocated tax benefits which was recognized as a tax benefit for the nine months ended April 30, 2001. We will attempt to sell the remaining balance of our tax benefits in the amount of approximately \$1,051,000 between July 1, 2002 and June 30, 2003, 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 our tax benefits or that such funds will be available in a timely manner.

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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

Not applicable.

PART II. OTHER INFORMATION

Item 2. (c) Recent Sales of Unregistered Securities

In March 2002, we completed a private placement resulting in the issuance of 200,000 shares of restricted common stock and 200,000 five-year warrants to purchase an aggregate of 200,000 shares of common stock at an exercise price of \$0.75 per share. We received an aggregate \$100,000 from such private placement. This transaction was consummated as a private sale pursuant to Section 4(2) of the Securities Act of 1933, as amended.

In April 2002, we completed a private placement resulting in the issuance of 838,638 shares of restricted common stock and 838,638 five-year warrants to purchase an aggregate of 838,638 shares of common stock at an exercise price of \$0.75 per share. We received an aggregate \$375,000 from such private placement. This transaction was consummated as a private sale pursuant to Section 4(2) of the Securities Act of 1933, as amended.

In May 2002, we issued 22,784 shares of common stock for payment of accounts payable in the amount of \$14,126 in a transaction consummated as a private sale pursuant to Section 4(2) of the Securities Act of 1933, as amended.

In May 2002, we completed a private placement resulting in the issuance of 500,000 shares of restricted common stock and 500,000 five-year warrants to

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purchase an aggregate of 500,000 shares of common stock at an exercise price of \$1.00 per share. We received an aggregate \$200,000 from such private placement. This transaction was consummated as a private sale pursuant to Section 4(2) of the Securities Act of 1933, as amended.

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 -----	Exhibit Incorporation Reference -----
3.1	Certificate of Incorporation	*
3.2	By-Laws	*
3.3	Amendment to Certificate of Incorporation	#

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Exhibit No. ---	Item Title -----	Exhibit Incorporation Reference -----
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	****

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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 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 Placement	^

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Exhibit No. ---	Item Title -----	Exhibit Incorporated Reference -----
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	^^
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.	
+	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 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 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.	

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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.

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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.

None

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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, 2002

/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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