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ALFACELL CORP
Form S-1/A
May 18, 2004

As filed with the Securities and Exchange Commission on May 18, 2004
Registration No. 333-112865

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 1 TO

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

	325410	
	(Primary Standard	
DELAWARE	Industrial	22-2369085
(State or other jurisdiction of	Classification Code	(I.R.S. Employer
incorporation or organization)	Number)	Identification No.)

225 Belleville Avenue
Bloomfield, New Jersey 07003
(973) 748-8082
(Address, including zip code, and telephone number, including area code,
of registrant's principal executive offices)

Kuslima Shogen
Chief Executive Officer
Alfacell Corporation
225 Belleville Avenue, Bloomfield, New Jersey 07003
(973) 748-8082
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies to:
Kevin T. Collins, Esq.
Dorsey & Whitney LLP
250 Park Avenue, New York, New York 10177
(212) 415-9200

Approximate date of commencement of proposed sale to the public: As soon
as practicable after this Registration Statement becomes effective.

If any securities being registered on this Form are to be offered on a

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delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offer Price
Common Stock \$.001 par value per share	1,210,654 (1)	\$8.83 (2)	\$10,690,
Common Stock \$.001 par value per share	1,271,187 (4)	\$12.39 (5)	\$15,750,
Common Stock \$.001 par value per share	394,336 (6)	N/A	N/A
Common Stock \$.001 par value per share	189,585 (8)	N/A	N/A
Common Stock \$.001 par value per share	10,851,453 (9)	N/A	N/A
TOTAL	13,917,215	N/A	\$26,440,

(1) Amount of shares of Common Stock to be registered.

(2) Estimated solely for the purpose of computing the amount of the registration fee for the shares of Common Stock to be registered in accordance with Rule 457(c) under the Securities Act, based on the average of the high and low sale price for the Common Stock, \$.001 par value per share, as reported by the OTC Bulletin Board on May 14, 2004, which date

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was within five business days of the original filing of this registration statement.

- (3) This amount is included in the aggregate filing fee for this registration statement of \$3,350.
- (4) Amount of shares of Common Stock issuable upon exercise of warrants to be registered. To be offered and sold by the selling stockholders upon the exercise of outstanding warrants.
- (5) Estimated solely for the purpose of computing the amount of the registration fee for the shares of Common Stock issuable upon exercise of warrants to be registered in accordance with Rule 457(g) under the Securities Act, based upon the price at which the warrants may be exercised.
- (6) Amount of shares of Common Stock to be registered for which a filing fee was paid on February 17, 2004, in connection with the original filing of this registration statement.
- (7) A filing fee in the aggregate of \$327 for these shares was previously paid on February 17, 2004 in connection with the original filing of this registration statement.
- (8) Amount of shares of Common Stock issuable upon exercise of warrants to be registered for which a filing fee was paid on February 17, 2004, in connection with the original filing of this registration statement. These shares are to be offered and sold by the selling stockholders upon the exercise of outstanding warrants.
- (9) Amount of shares of Common Stock previously registered pursuant to Registration Statement Nos. 333-38136 and 333-89166, as amended on January 7, 2004 and Registration Statement No. 333-111101, filed on January 7, 2004.
- (10) The filing fee covering these shares was previously paid.
- (11) The \$327 registration fee was paid on February 17, 2004 in connection with the original filing of this registration statement. The \$3,350 listed is for those additional shares that are being added to this registration statement with this filing.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Pursuant to the provisions of Rule 429 under the Securities Act of 1933, this Registration Statement relates to Registration Statement Nos. 333-38136, 333-89166 and 333-111101 filed by the Registrant. The prospectus forming part of this Registration Statement shall serve the purpose of a post-effective amendment to Registration Statement Nos. 333-38136, 333-89166 and 333-111101 as specified in Rule 429.

EXPLANATORY NOTE

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Alfacell has previously filed three Registration Statements, Nos. 333-38136, 333-89166 and 333-111101, in order to register shares of its Common Stock, as well as shares of Common Stock underlying warrants held by certain selling stockholders. Pursuant to Rule 429 under the Securities Act of 1933, this Registration Statement also serves as a post-effective amendment to Registration Statement Nos. 333-38136, 333-89166 and 333-111101. This Registration Statement eliminates those selling stockholders who have previously sold shares pursuant to such Registration Statements and also eliminates those selling stockholders to whom Alfacell no longer has registration obligations. On January 7, 2004, the Company filed post-effective amendments to Registration Statement Nos. 333-38136 and 333-89166, and a pre-effective amendment to Registration Statement No. 333-111101. Of the 11,336,453 shares registered pursuant to such January 7, 2004 post-effective and pre-effective amendments, as of March 31, 2004, 485,000 shares have either been sold pursuant to the previously filed Registration Statements or Alfacell is no longer required to register such shares. Accordingly, this Registration Statement carries forward from the three previously filed Registration Statements (i) 3,889,096 shares of Common Stock and (ii) 6,962,357 shares of Common Stock underlying warrants and options, for an aggregate of 10,851,453 shares of Common Stock.

In addition, this Registration Statement also registers an additional (i) 1,604,990 shares of Common Stock and (ii) 1,460,772 shares of Common Stock underlying warrants, for an aggregate of 3,065,762 shares of Common Stock, all of which have not previously been registered.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

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SUBJECT TO COMPLETION, DATED May 18, 2004
PROSPECTUS

ALFACELL CORPORATION
13,917,215 Shares
Common Stock

Our securityholders named on page 50 of this prospectus are offering an aggregate of 13,917,215 shares of our Common Stock.

Our Common Stock is traded on the OTC Bulletin Board under the symbol "ACEL.OB." On May 17, 2004, the reported last sale price of our Common Stock on the OTC Bulletin Board was \$7.88 per share.

Investing in our Common Stock is speculative and involves a high degree of risk. See "Risk Factors" beginning on page 4.

Neither the Securities and Exchange Commission nor state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

May [], 2004

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PROSPECTUS SUMMARY

This summary contains basic information about us and this offering. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section entitled "Risk Factors" and our financial statements and the notes thereto, before making an investment decision.

Our Company

We are a biopharmaceutical company primarily engaged in the discovery and development of a new class of therapeutic drugs for the treatment of cancer and other pathological conditions. Based on our proprietary Ribonuclease, or RNase, which is a type of biological enzyme that splits RNA molecules and is the basis of our technology platform, our drug discovery and development program consists of novel therapeutics developed from amphibian ribonucleases. These are very basic RNA enzymes which play important roles in nature in the development of cells and their functions. RNA is an essential bio-chemical cellular component necessary to support life. There are various types of RNA, all of which have

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specific functions in a living cell. They help control several essential biological activities, namely regulation of cell proliferation, maturation, differentiation and cell death. Therefore, they are ideal candidates for the development of therapeutics for cancer and other life-threatening diseases, including HIV and autoimmune diseases, that require anti-proliferative and apoptotic, or programmed cell death, properties. We have co-sponsored and been a key participant in the International Ribonuclease Meetings held every three years.

ONCONASE(R), our trademark name for our flagship product, is undergoing the last stage of clinical testing, or Phase III. This Phase III trial is a two-part international centrally randomized trial of ONCONASE(R) as a treatment for malignant mesothelioma, an inoperable form of cancer found in the lining of the lung and abdomen. While patient enrollment for the first part of the clinical trial has been completed and the trial is on-going, the second part is still in the patient enrollment stage. Both parts of the Phase III trial are survival studies, which require all patients to die before the trials are completed. Because we are unable to predict when such patient deaths will occur, we are currently unable to ascertain when the trials will be completed or when we will be able to file a New Drug Application, or NDA, with the Food and Drug Administration, or FDA. We have also conducted other randomized and non-randomized trials with patients with advanced stages of solid tumors in other types of cancers.

ONCONASE(R), unlike most cancer drugs that attack all cells regardless of their phenotype, malignant versus normal, and produce a variety of severe toxicities, is not an indiscriminate cytotoxic, or cell killing agent, but rather, its activity is controlled through unique and specific molecular mechanisms. ONCONASE(R) affects primarily exponentially growing malignant cells. ONCONASE(R) is a novel amphibian ribonuclease, unique among the superfamily of pancreatic ribonuclease that has been isolated from the eggs of the *Rana pipiens* frog, commonly called the leopard frog. We have determined that thus far, ranpirnase, the generic name of ONCONASE(R), is the smallest known protein belonging to the superfamily of pancreatic ribonuclease and has been shown, on a molecular level, to re-regulate the unregulated growth and proliferation of cancer cells.

In December 2002, we received Fast Track Designation from the FDA for ONCONASE(R) for the treatment of malignant mesothelioma. Fast Track Designation is an FDA program designed to expedite the review of new drugs that are intended to treat serious or life threatening conditions and that demonstrate the potential to address unmet medical needs. In February 2001, we received an Orphan Medicinal Product Designation for ONCONASE(R) from the European Agency for the Evaluation of Medicinal Products, or the EMEA. Orphan Medicinal Product Designation is a program designed to provide marketing, protocol and other incentives for pharmaceutical companies to develop and market

products in the European Community that address life threatening or very serious conditions that affect not more than 5 in 10,000 persons in the European Community. Orphan designation in Europe entitles the Company to 10 years of marketing exclusivity, reduced filing fees and regulatory guidance from the EMEA.

These FDA and EMEA designations for ONCONASE(R) may serve to expedite its regulatory review, assuming the clinical trials yield a positive result. Future clinical trials, however, may not demonstrate that ONCONASE(R) is effective. Thus, our applications for FDA or EMEA approval to market ONCONASE(R), which are dependent upon the success of our clinical trials, may be affected. The efficacy

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and safety of ONCONASE(R) for malignant mesothelioma, will ultimately be determined by the FDA. In the interim, our Fast Track Designation allows us to continue to have meetings and discussions with the FDA to establish mutually agreed upon parameters for the NDA to obtain marketing approval for ONCONASE(R), based on the assumption that the clinical trials will continue to yield favorable results.

Our drug discovery program forms the basis for the development of specific recombinant RNases for chemically linking drugs and other compounds such as monoclonal antibodies, growth factors, etc. and gene fusion products with the goal of targeting various molecular functions. This program provides for joint design and generation of new products with outside partners. We may own these new products along with a partner(s), or we may grant an exclusive license to the collaborating partner(s).

We have also discovered another series of proteins, collectively named amphinases, that may have therapeutic uses. These proteins are bioactive in that they have an effect on living cells and organisms and have both anti-cancer and anti-viral activity. All of the proteins characterized to date are RNases. These products are currently undergoing preclinical testing. We are currently in discussions with potential pharmaceutical partners for the development of these new compounds as conjugates and fusion proteins.

We are engaged in the research, development and clinical trials of our products both independently and through research collaborations. Due to our lack of commercially available products, we have financed our operations since inception through the sale of our equity securities and convertible debentures in registered offerings and private placements. Additionally, we have raised capital through debt financings, the sale of our tax benefits and research products, interest income and financing received from our Chief Executive Officer. These funds provide us with the resources to acquire staff, facilities, capital equipment, finance our technology, product development, manufacturing and clinical trials. We have incurred losses since inception and to date we have not consummated any licensing, marketing or development arrangements. Presently, our cash balance is sufficient to fund our expanded operations through July 31, 2005 based on our expected level of expenditures in relation to activities in preparing ONCONASE(R) for an NDA filing and other ongoing operations of the company. However, we continue to seek additional capital financing through the sale of equity in private placements, sale of our tax benefits and exercise of stock options and warrants but cannot be sure that we will be able to raise capital on favorable terms or at all.

Alfacell Corporation was incorporated in Delaware in 1981. Our corporate headquarters is located at 225 Belleville Avenue, Bloomfield, New Jersey 07003 and our telephone number is (973) 748-8082.

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Summary Financial Data

You should read the following financial data in conjunction with the sections entitled "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the audited and unaudited financial statements and notes included in this prospectus.

August 24,
1981

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	(Date of Inception) to January 31, 2004 (unaudited)	Year Ended July 31,			
		2003	2002	2001	2000
Statement of Operations Data:					
Total revenues, principally investment income	\$ 2,038,822	\$ 39,877	\$ 4,838	\$ 13,121	\$ 51,14
Costs and Expenses:					
Costs of sales	336,495	0	0	0	
Research and development	42,913,221	1,699,962	2,032,938	1,900,678	1,879,72
General and administrative	22,936,040	624,406	798,053	705,745	644,58
Interest	3,799,258	358,398	118,741	153,029	4,98
Total costs and expenses	69,985,014	2,682,766	2,949,732	2,759,452	2,529,29
State tax benefit	2,014,185	231,357	353,732	451,395	755,85
Net loss	\$(65,932,007)	\$ (2,411,532)	\$ (2,591,162)	\$ (2,294,936)	\$ (1,722,29
Net loss per common share:					
Basic and diluted		\$ (0.10)	\$ (0.12)	\$ (0.12)	\$ (0.1
Weighted average number of common shares:					
Basic and diluted		23,166,000	21,045,000	18,927,000	17,812,00
Dividends		\$ 0	\$ 0	\$ 0	\$

Six Months Ended January 31,

	2004 (unaudited)	2003 (unaudited)
Statement of Operations Data:		
Total revenues, principally investment income	\$ 8,230	\$ 30,234
Costs and Expenses:		
Costs of sales	0	0
Research and development	1,311,286	799,370
General and administrative	648,188	288,076
Interest	228,401	239,570

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Total costs and expenses	2,187,875	1,327,016
	-----	-----
State tax benefit	221,847	229,459
	-----	-----
Net loss	\$ (1,957,798)	\$ (1,067,323)
	=====	=====
Net loss per common share:		
Basic and diluted	\$ (0.07)	\$ (0.05)
	-----	-----
Weighted average number of common shares:		
Basic and diluted	27,675,584	22,830,115
	-----	-----
Dividends	\$ 0	\$ 0

	As of	
	January 31, 2004	July 31, 2003
	-----	-----
	(unaudited)	
Balance Sheet Data:		
Total assets	\$ 2,258,524	\$ 495,322
Cash and cash equivalents	1,849,497	330,137
Working capital (deficit)	(83,018)	(2,404,247)
Long-term liabilities	181,436	242,516
Total stockholders' (deficiency)	(104,480)	(2,491,681)

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RISK FACTORS

An investment in our Common Stock is speculative and involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information in this prospectus and our other SEC filings before deciding whether to purchase shares of our Common Stock. If any of the following risks actually occur, our business and operating results could be harmed. This could cause the trading price of our Common Stock to decline, and you may lose all or part of your investment.

Risk Related to Our Company

We have incurred losses since inception and anticipate that we will incur continued losses for the foreseeable future. We do not have a current source of product revenue and may never be profitable.

We are a development stage company and since our inception our source of working capital has been public and private sales of our stock. We incurred a net loss of approximately \$1,958,000 for the six months ended January 31, 2004. We have continued to incur losses since January 2004. In addition, we had a working capital deficit of approximately \$83,000 and an accumulated deficit of approximately \$65,932,000 as of January 31, 2004. We may never achieve revenue

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sufficient for us to attain profitability.

We incurred net losses of approximately \$2,412,000, \$2,591,000 and \$2,295,000 for the fiscal years ended July 31, 2003, 2002 and 2001, respectively.

Our profitability will depend on our ability to develop, obtain regulatory approvals for, and effectively market ONCONASE(R) as well as entering into strategic alliances for the development of new drug candidates from the out-licensing of our proprietary RNase technology. The commercialization of our pharmaceutical products involves a number of significant challenges. In particular our ability to commercialize ONCONASE(R) depends on the success of our clinical development programs, our efforts to obtain regulatory approval and our sales and marketing efforts or those of our marketing partners, if any, directed at physicians, patients and third-party payors. A number of factors could affect these efforts including:

- o Our ability to demonstrate clinically that our products have utility and are safe;
- o Delays or refusals by regulatory authorities in granting marketing approvals;
- o Our limited financial resources relative to our competitors;
- o Our ability to obtain an appropriate marketing partner;
- o The availability and level of reimbursement for our products by third party payors;
- o Incidents of adverse reactions to our products;
- o Side effects or misuse of our products and unfavorable publicity that could result; and
- o The occurrence of manufacturing or distribution disruptions.

We will seek to generate revenue through licensing, marketing and development arrangements prior to receiving revenue from the sale of our products. To date we have not consummated any licensing or marketing arrangements and we may not be able to successfully consummate any such arrangements. We have entered into several development arrangements, which have resulted in limited revenues for us. However, we cannot ensure that these arrangements or future arrangements, if any, will result in significant amounts of revenue for us. We, therefore, are unable to predict the extent of any future losses or the time required to achieve profitability, if at all.

We need additional financing to continue operations which may not be available on acceptable terms, if it is available at all.

We need additional financing in order to continue operations, including completion of our current clinical trials and filing marketing registrations for ONCONASE(R) in the United States with the FDA and in Europe with the EMEA. As a result of our continuing losses and lack of capital, the report of our

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independent auditors on our July 31, 2003 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, 2003 do not include any adjustments that might result from the outcome of this uncertainty. If the results from our current clinical trial do not demonstrate the efficacy and safety of ONCONASE(R) for malignant mesothelioma, our ability to raise additional capital will be adversely affected. Even if regulatory applications for marketing approvals are filed, we will need additional financing to continue operations. In connection with the recent private placement of \$10.0 million in gross proceeds from an institutional investor, we plan to expand our operations in preparing ONCONASE(R) for an NDA filing as well as fund our ongoing operations. Presently, our cash balance is sufficient to fund our expanded operations through July 31, 2005 based on our expected level of expenditures in relation to activities in preparing ONCONASE(R) for an NDA filing and other ongoing operations of the company. However, we continue to seek additional capital financing through the sale of equity in private placements, sale of our tax benefits and exercise of stock options and warrants but cannot be sure that we will be able to raise capital on favorable terms or at all.

We may be unable to sell certain state tax benefits in the future and if we are unable to do so, it would eliminate a source of financing that we have relied on in the past.

At July 31, 2003, we had federal net operating loss carryforwards of approximately \$39,600,000 that expire from 2004 to 2023. We also had research and experimentation tax credit carryforwards of approximately \$1,186,000 that expire from 2004 to 2023. 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. The aggregate amount of tax benefits that New Jersey allows corporations to sell each state fiscal year (July 1st through June 30th) is determined annually and if New Jersey reduces such aggregate amount in any fiscal year we may be unable to sell some or all of our available tax benefits as we have in the past. In addition, there is a limited market for these types of sales and we may not be able to find someone to purchase our tax benefits for a reasonable price. Our historical results of operations have been improved by our sale of tax benefits and if we continue to generate a limited amount of revenue and are unable in the future to sell our tax benefits, our results of operations will be negatively impacted.

For the state fiscal year 2004 (July 1, 2003 to June 30, 2004), we had approximately \$1,378,000 total available tax benefits that were sellable, of which New Jersey permitted us to only sell approximately \$261,000. We received approximately \$222,000 from the sale of the \$261,000 of tax benefits, which we recognized as tax benefits for the six months ended January 31, 2004. For the state fiscal year 2003 (July 1, 2002 to June 30, 2003), we had approximately \$1,373,000 in total available tax benefits that were sellable, of which New Jersey permitted us to only sell approximately \$273,000. We received approximately \$231,000 from the sale of the \$273,000 of tax benefits, which we recognized as tax benefits for the six months ended January 31, 2003.

If still available under New Jersey law, we will attempt to sell the remaining \$1,117,000 of our tax benefits, between July 1, 2004 and June 30, 2005. This amount, which is a carryover of our remaining tax benefits from state fiscal year 2004, may increase if we incur additional tax benefits during state fiscal year 2005. We can not estimate, however, what percentage of our sellable tax benefits New Jersey will

permit us to sell, how much money we will receive in connection with the sale, if we will be able to find a buyer for our tax benefits or if such funds will be available in a timely manner.

We cannot predict how long it will take us nor how much it will cost us to complete our Phase III trial because it is a survival study and we are still in patient enrollment in part two of this Phase III trial.

We currently have ongoing a two-part confirmatory Phase III trial of ONCONASE(R) as a treatment for malignant mesothelioma. While patient enrollment for the first part of the clinical trial has been completed and the trial is on-going, the second part is still in the patient enrollment stage. Both parts of the Phase III clinical trial are survival studies, which track the length of time enrolled patients in the studies live, and therefore, according to their protocols, patient deaths must occur before the trials are completed. Since it is impossible to predict when these terminal events in the Phase III trial will occur and we are still engaged in patient enrollment in part two of the trial, we do not have the capability of reasonably determining when the Phase III trial will be completed nor when we will be able to file a New Drug Application, or NDA, with the Food and Drug Administration, or FDA.

In addition, clinical trials are very costly and time consuming. The length of time required to complete a clinical trial depends on several factors including the size of the patient population, the ability of patients to get to the site of the clinical study, and the criteria for determining which patients are eligible to join the study. Delays in patient enrollment, specifically in the second part of the Phase III clinical trial of ONCONASE(R) as a treatment for malignant mesothelioma, could delay completion of the clinical study and increase its costs which could delay the commercial sale of ONCONASE(R).

The FDA and comparable regulatory agencies in foreign countries impose substantial pre-market approval requirements on the introduction of pharmaceutical products. These requirements involve lengthy and detailed pre-clinical and clinical testing and other costly and time consuming procedures. Satisfaction of these requirements typically takes several years depending on the type of complexity and novelty of the product. We cannot apply for FDA or EMEA approval to market ONCONASE(R) until the clinical trials and all other registration requirements have been completed and as discussed above, since this confirmatory Phase III trial of ONCONASE(R) as a treatment for malignant mesothelioma is a survival study, we do not have the capability of reasonably determining when such trial will be completed.

If we fail to obtain the necessary regulatory approvals, we will not be allowed to commercialize our drugs and will not generate product revenue.

The FDA and comparable regulatory agencies in foreign countries impose substantial pre-market approval requirements on the introduction of pharmaceutical products. These requirements involve lengthy and detailed pre-clinical and clinical testing and other costly and time consuming procedures. Satisfaction of these requirements typically takes several years depending on the level of complexity and novelty of the product. Drugs in late stages of clinical development may fail to show the desired safety and efficacy traits despite having progressed through initial clinical testing. While limited trials with our product have produced certain favorable results we cannot be

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certain that we will successfully complete Phase I, Phase II or Phase III testing of any compound within any specific time period, if at all. Furthermore, the FDA or the study sponsor may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. In addition, we cannot apply for FDA or EMEA approval to market ONCONASE(R) until pre-clinical and clinical trials have been completed and as discussed above we do not have the capability of reasonably determining when such trials will be completed. Several factors could prevent the successful completion or cause significant delays of these trials including an inability to enroll the required number of patients or failure to demonstrate the product is safe and effective in humans. Also, if safety concerns develop, the FDA and EMEA could stop our trials before completion.

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In December 2002, we received Fast Track Designation from the Food and Drug Administration, or the FDA for ONCONASE(R) for the treatment of malignant mesothelioma. In February 2001, we received an Orphan Medicinal Product Designation for ONCONASE(R) from the European Agency for the Evaluation of Medicinal Products, or the EMEA. We were granted these designations because at the time there were no approved treatments for malignant mesothelioma. Recently, the FDA granted Eli Lilly & Company approval to sell its Alimta(R) medication as an orphan drug to treat pleural mesothelioma.

All statutes and regulations governing the conduct of clinical trials are subject to change by various regulatory agencies, including the FDA, in the future which could affect the cost and duration of our clinical trials. Any unanticipated costs or delays in our clinical studies would delay our ability to generate product revenues and to raise additional capital and could cause us to be unable to fund the completion of the studies.

We may not market or sell any product for which we have not obtained regulatory approval. We cannot assure that the FDA or other regulatory agencies will ever approve the use of our products that are under development. Even if we receive regulatory approval, such approval may involve limitations on the indicated uses for which we may market our products. Further, even after approval, discovery of previously unknown problems could result in additional restrictions, including withdrawal of our products from the market.

If we fail to obtain the necessary regulatory approvals, we cannot market or sell our products in the United States, or in other countries and our long-term viability would be threatened. If we fail to achieve regulatory approval or foreign marketing authorizations for ONCONASE(R) we will not have a saleable product or product revenues for quite some time, if at all, and may not be able to continue operations.

We are and will be dependent upon third parties for manufacturing our products. If these third parties do not devote sufficient time and resources to our products our revenues and profits may be adversely affected.

We do not have the facilities or expertise to manufacture our products. We presently rely on third parties to perform certain of the manufacturing processes for the production of ONCONASE(R) for use in clinical trials. Currently, we contract with Scientific Protein Labs for the extraction of the

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ONCONASE(R) protein drug substance from the oocytes, or the unfertilized eggs, of the *Rana pipiens* frog, which is found in the Northwest United States and is commonly called the leopard frog. We contract with BenVenue Corporation for vial filling and with Cardinal Health for the labeling, storage and shipping of ONCONASE(R) during the Phase III trial period. Because we have not yet received drug approval, we utilize the services of these third party manufacturers solely on an as needed basis with prices and terms customary for companies in businesses that are similarly situated.

Our use of these manufacturers was previously submitted to and approved by the FDA through our Investigational New Drug, or IND, application, which we submitted to the FDA to request authorization to administer ONCONASE(R) to humans in clinical trials. We believe there are substantial alternative service providers for the manufacturing services for which we contract. In order to replace an existing service provider we must amend our IND to notify the FDA of the new manufacturer. Although the FDA generally will not suspend or delay a clinical trial as a result of replacing an existing manufacturer, the FDA has the authority to suspend or delay a clinical trial if, among other grounds, human subjects are or would be exposed to an unreasonable and significant risk of illness or injury as a result of the replacement manufacturer.

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We intend to rely on third parties to manufacture our products if they are approved for sale by the appropriate regulatory agencies and are commercialized. Third party manufacturers may not be able to meet our needs with respect to the timing, quantity or quality of our products or to supply products on acceptable terms.

Because we do not have marketing, sales or distribution capabilities, we expect to contract with third parties for these functions and we will therefore be dependent upon such third parties to market, sell and distribute our products in order for us to generate revenues.

We currently have no sales, marketing or distribution capabilities. In order to commercialize any product candidates for which we receive FDA approval, we expect to rely on established third party strategic partners to perform these functions. For example, if we are successful in our Phase III clinical trials with ONCONASE(R), and the FDA grants approval for the commercialization of ONCONASE(R), we will be unable to introduce the product to market without establishing a marketing collaboration with a pharmaceutical company with those resources. If we establish relationships with one or more biopharmaceutical or other marketing companies with existing distribution systems and direct sales forces to market any or all of our product candidates, we cannot assure you that we will be able to enter into or maintain agreements with these companies on acceptable terms, if at all. Further, it is likely that we will have limited or no control over the manner in which product candidates are marketed or the resources devoted to such markets.

In addition, we expect to begin to incur significant expenses in determining our commercialization strategy with respect to one or more of our product candidates. The determination of our commercialization strategy with respect to a product candidate will depend on a number of factors, including:

- o the extent to which we are successful in securing collaborative partners to offset some or all of the funding obligations with respect to product candidates;

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- o the extent to which our agreement with our collaborators permits us to exercise marketing or promotion rights with respect to the product candidate;
- o how our product candidates compare to competitive products with respect to labeling, pricing, therapeutic effect, and method of delivery; and
- o whether we are able to establish agreements with third party collaborators, including large biopharmaceutical or other marketing companies, with respect to any of our product candidates on terms that are acceptable to us.

A number of these factors are outside of our control and will be difficult to determine.

Our product candidates may not be accepted by the market.

Even if approved by the FDA and other regulatory authorities, our product candidates may not achieve market acceptance, which means we would not receive significant revenues from these products. Approval by the FDA does not necessarily mean that the medical community will be convinced of the relative safety, efficacy and cost-effectiveness of our products as compared to other products. In addition, third party reimbursers such as insurance companies and HMOs may be reluctant to reimburse expenses relating to our products.

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We depend upon Kuslima Shogen and our other key personnel and may not be able to retain these employees or recruit qualified replacement or additional personnel, which would have a material adverse affect on our business.

We are highly dependent upon our founder, Chairman and Chief Executive Officer, Kuslima Shogen. Kuslima Shogen's talents, efforts, personality, vision and leadership have been, and continue to be, critical to our success. The diminution or loss of the services of Kuslima Shogen, and any negative market or industry perception arising from that diminution or loss, would have a material adverse effect on our business. While our other employees have substantial experience and have made significant contributions to our business, Kuslima Shogen is our senior executive and also our primary supporter because she represents the Company's primary means of accessing the capital markets.

Because of the specialized scientific nature of our business, our continued success also is dependent upon our ability to attract and retain qualified management and scientific personnel. There is intense competition for qualified personnel in the pharmaceutical field. As our company grows our inability to attract qualified management and scientific personnel could materially adversely affect our research and development programs, the commercialization of our products and the potential revenue from product sales.

We do not have employment contracts with Kuslima Shogen or any of our other management and scientific personnel.

Risks Related to Our Industry

Our proprietary technology and patents may offer only limited protection against infringement and the development by our competitors of competitive products.

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We currently co-own two patents with the United States government that expire in 2016. We also own ten United States patents outright with expiration dates ranging from 2006 to 2019, four European patents with expiration dates ranging from 2009 to 2016 and one Japanese patent that expires in 2010. In addition, we have patent applications that are pending in the United States, Europe and Japan. We do not license patent rights from any domestic or international companies or institutions. The scope of protection afforded by patents for biotechnological inventions is uncertain, and such uncertainty applies to our patents as well. Therefore, our patents may not give us competitive advantages or afford us adequate protection from competing products. Furthermore, others may independently develop products that are similar to our products, and may design around the claims of our patents. Patent litigation and intellectual property litigation are expensive and our resources are limited. If we were to become involved in litigation, we might not have the funds or other resources necessary to conduct the litigation effectively. This might prevent us from protecting our patents, from defending against claims of infringement, or both. To date, we have not received any threats of litigation, legal actions or negotiations regarding patent issues.

Developments by competitors may render our products obsolete or non-competitive.

In February 2004, the Food and Drug Administration granted Eli Lilly & Company approval to sell its Alimta(R) medication as an orphan drug to treat patients with pleural mesothelioma. Alimta is a multi-targeted antifolate that is based upon a different mechanism of action than ONCONASE(R). To our knowledge, no other company is developing a product with the same mechanism of action as ONCONASE(R). However, there may be other companies, universities, research teams or scientists who are developing products to treat the same medical conditions our products are intended to treat. Eli Lilly is, and some of these other companies, universities, research teams or scientists may be more experienced

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and have greater clinical, marketing and regulatory capabilities and managerial and financial resources than we do. This may enable them to develop products to treat the same medical conditions our products are intended to treat before we are able to complete the development of our competing product.

Our business is very competitive and involves rapid changes in the technologies involved in developing new drugs. If others experience rapid technological development, our products may become obsolete before we are able to recover expenses incurred in developing our products. We will probably face new competitors as new technologies develop. Our success depends on our ability to remain competitive in the development of new drugs or we may not be able to compete successfully.

We may be sued for product liability.

Our business exposes us to potential product liability that may have a negative effect on our financial performance and our business generally. The administration of drugs to humans, whether in clinical trials or commercially,

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exposes us to potential product and professional liability risks which are inherent in the testing, production, marketing and sale of new drugs for humans. Product liability claims can be expensive to defend and may result in large judgments or settlements against us which could have a negative effect on our financial performance and materially adversely affect our business. We maintain product liability insurance to protect our products and product candidates in amounts customary for companies in businesses that are similarly situated, but our insurance coverage may not be sufficient to cover claims. Furthermore, liability insurance coverage is becoming increasingly expensive and we cannot be certain that we will always be able to maintain or increase our insurance coverage at an affordable price or in sufficient amounts to protect against potential losses. A product liability claim, product recall or other claim, as well as any claim for uninsured liabilities or claim in excess of insured liabilities, may significantly harm our business and results of operations. Even if a product liability claim is not successful, adverse publicity and time and expense of defending such a claim may significantly interfere with our business.

If we are unable to obtain favorable reimbursement for our product candidates, their commercial success may be severely hindered.

Our ability to sell our future products may depend in large part on the extent to which reimbursement for the costs of our products is available from government entities, private health insurers, managed care organizations and others. Third-party payors are increasingly attempting to contain their costs. We cannot predict actions third-party payors may take, or whether they will limit the coverage and level of reimbursement for our products or refuse to provide any coverage at all. Reduced or partial reimbursement coverage could make our products less attractive to patients, suppliers and prescribing physicians and may not be adequate for us to maintain price levels sufficient to realize an appropriate return on our investment in our product candidates or compete on price.

In some cases, insurers and other healthcare payment organizations try to encourage the use of less expensive generic brands and over-the-counter, or OTC, products through their prescription benefits coverage and reimbursement policies. These organizations may make the generic alternative more attractive to the patient by providing different amounts of reimbursement so that the net cost of the generic product to the patient is less than the net cost of a prescription brand product. Aggressive pricing policies by our generic product competitors and the prescription benefits policies of insurers could have a negative effect on our product revenues and profitability.

Many managed care organizations negotiate the price of medical services and products and develop formularies for that purpose. Exclusion of a product from a formulary can lead to its sharply reduced usage in the managed care organization patient population. If our products are not included

within an adequate number of formularies or adequate reimbursement levels are not provided, or if those policies increasingly favor generic or OTC products, our market share and gross margins could be negatively affected, as could our overall business and financial condition.

The competition among pharmaceutical companies to have their products approved for reimbursement may also result in downward pricing pressure in the industry or in the markets where our products will compete. We may not be successful in any efforts we take to mitigate the effect of a decline in average

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selling prices for our products. Any decline in our average selling prices would also reduce our gross margins.

In addition, managed care initiatives to control costs may influence primary care physicians to refer fewer patients to oncologists and other specialists. Reductions in these referrals could have a material adverse effect on the size of our potential market and increase costs to effectively promote our products.

We are subject to new legislation, regulatory proposals and managed care initiatives that may increase our costs of compliance and adversely affect our ability to market our products, obtain collaborators and raise capital.

There have been a number of legislative and regulatory proposals aimed at changing the healthcare system and pharmaceutical industry, including reductions in the cost of prescription products and changes in the levels at which consumers and healthcare providers are reimbursed for purchases of pharmaceutical products. For example, the Prescription Drug and Medicare Improvement Act of 2003 was recently enacted. This legislation provides a new Medicare prescription drug benefit beginning in 2006 and mandates other reforms. Although we cannot predict the full effects on our business of the implementation of this new legislation, it is possible that the new benefit, which will be managed by private health insurers, pharmacy benefit managers and other managed care organizations, will result in decreased reimbursement for prescription drugs, which may further exacerbate industry-wide pressure to reduce the prices charged for prescription drugs. This could harm our ability to market our products and generate revenues. It is also possible that other proposals will be adopted. As a result of the new Medicare prescription drug benefit or any other proposals, we may determine to change our current manner of operation, provide additional benefits or change our contract arrangements, any of which could harm our ability to operate our business efficiently, obtain collaborators and raise capital.

Risks Related to This Offering

Our stock is thinly traded and you may not be able to sell our stock when you want to do so.

There has been no established trading market for our Common Stock since the stock was delisted from Nasdaq in April 1999. Since then our Common Stock has been quoted on the OTC Bulletin Board, and is currently thinly traded. Over the past three years, the weekly trading volume was as low as 4,160 shares per week and as high as 706,280 shares for any week in such period. You may be unable to sell our Common Stock when you want to do so if the trading market continues to be limited.

The price of our Common Stock has been, and may continue to be, volatile.

The market price of our Common Stock, like that of the securities of many other development stage biotechnology companies, has fluctuated over a wide range and it is likely that the price of our Common Stock will fluctuate in the future. Over the past three years, the sale price for our Common Stock, as reported by Nasdaq and the OTC Bulletin Board has fluctuated from a low of \$0.18 to a high of \$9.97. The market price of our Common Stock could be impacted by a variety of factors, including:

- o announcements of technological innovations or new commercial products by us or our competitors,
- o disclosure of the results of pre-clinical testing and clinical trials by us or our competitors,
- o disclosure of the results of regulatory proceedings,
- o changes in government regulation,
- o developments in the patents or other proprietary rights owned or licensed by us or our competitors,
- o public concern as to the safety and efficacy of products developed by us or others,
- o litigation, and
- o general market conditions in our industry.

In addition, the stock market continues to experience extreme price and volume fluctuations. These fluctuations have especially affected the market price of many biotechnology companies. Such fluctuations have often been unrelated to the operating performance of these companies. Nonetheless, these broad market fluctuations may negatively affect the market price of our Common Stock.

Events with respect to our share capital could cause the price of our Common Stock to decline.

Sales of substantial amounts of our Common Stock in the open market, or the availability of such shares for sale, could adversely affect the price of our Common Stock. We had 31,969,362 million shares of Common Stock outstanding as of May 12, 2004. The following securities that may be exercised for, or are convertible into, shares of our Common Stock were issued and outstanding as of May 12, 2004:

- o Options. Stock options to purchase 2,775,695 shares of our Common Stock at a weighted average exercise price of approximately \$2.28 per share.
- o Warrants. Warrants to purchase 10,181,522 million shares of our Common Stock at a weighted average exercise price of approximately \$2.74 per share.
- o Convertible Notes. Notes which will convert into 3,319,402 shares of our Common Stock and 3,860,424 warrants which are convertible into 3,860,424 shares of our Common Stock at an average conversion price of \$0.26 as of such date.

The shares of our Common Stock that may be issued under the options, warrants and upon conversion of the notes are currently registered with the SEC or are eligible for sale without any volume limitations pursuant to Rule 144(k) under the Securities Act.

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Our incorporation documents may delay or prevent (i) the removal of our current management or (ii) a change of control that a stockholder may consider favorable.

We are currently authorized to issue 1,000,000 shares of preferred stock. Our Board of Directors is authorized, without any approval of the stockholders, to issue the preferred stock and determine the terms of the preferred stock. This provision allows the board of directors to affect the rights of stockholders, since the board of directors can make it more difficult for common stockholders to replace members of the board. Because the board of directors is responsible for appointing the members of our management, these provisions could in turn affect any attempt to replace current management by the common stockholders. Furthermore, the existence of authorized shares of preferred stock might have the effect of discouraging any attempt by a person, through the acquisition of a substantial number of shares of Common Stock, to acquire control of our company. Accordingly, the accomplishment of a tender offer may be more difficult. This may be beneficial to management in a hostile tender offer, but have an adverse impact on stockholders who may want to participate in the tender offer or inhibit a stockholder's ability to receive an acquisition premium for his or her shares.

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The ability of our stockholders to recover against Armus Harrison & Co., or AHC, may be limited because we have not been able to obtain the reissued reports of AHC with respect to the financial statements included in this prospectus, nor have we been able to obtain AHC's consent to the use of such report herein.

Section 11 of the Securities Act of 1933 (the "Securities Act") provides that any person acquiring a security pursuant to a registration statement may assert a claim against every accountant who has with its consent been named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation that is used in connection with the registration statement, if that part of the registration statement at the time it becomes effective contains an untrue statement of a material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading (unless it is proved that at the time of such acquisition such acquiring person knew of such untruth or omission).

In June 1996, AHC dissolved and ceased all operations. Therefore, we have not been able to obtain the reissued reports of AHC with respect to the financial statements included in this registration statement of which this prospectus is a part nor have we been able to obtain AHC's consent to the use of such report herein. As a result, in the event any persons seek to assert a claim against AHC under Section 11 of the Securities Act for any untrue statement of a material fact contained in these financial statements or any omissions to state a material fact required to be stated therein, such persons will be barred. Accordingly, you may be unable to assert a claim against AHC under Section 11 of the Securities Act for any purchases of the Company's Common Stock pursuant to this registration statement. In addition, the ability of AHC to satisfy any claims properly brought against it may be limited as a practical matter due to AHC's dissolution in 1996.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains, in addition to historical information,

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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 such terms and phrases as "intends," "expects," "anticipates," "estimates," "seeks" and "believes." You should read carefully the description of our plans and objectives for future operations, assumptions underlying these plans and objectives and other forward-looking statements included in "Prospectus Summary," "Use of Proceeds," "Management's Discussion And Analysis" and "Business" in this prospectus, but should not place undue reliance on these statements of expectations about our future performance. These descriptions and statements are based on management's current expectations. Our actual results may differ significantly from the results discussed in these forward-looking statements as a result of certain factors, including those set forth in the "Risk Factors" section and elsewhere in this prospectus.

USE OF PROCEEDS

We will not receive any proceeds from the sale of our Common Stock in this offering. Some of the shares of Common Stock to be sold in this offering have not yet been issued and will only be issued upon the exercise of warrants. We will receive estimated net proceeds of approximately \$26,224,565 if all such warrants are exercised. However, the warrants may not be exercised, in which event we would not receive any proceeds. We intend to use any proceeds received from the exercise of the warrants for general corporate purposes, including the funding of research and development activities. We expect to incur expenses of approximately \$105,000 in connection with this offering.

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PRICE RANGE OF COMMON STOCK

Our Common Stock is traded on the OTC Bulletin Board under the symbol "ACEL.OB." At the close of business on April 27, 1999, we were delisted from The Nasdaq SmallCap Market for failing to meet the minimum bid price requirements set forth in the NASD Marketplace Rules. As of May 12, 2004, we had approximately 1,141 stockholders of record of our Common Stock.

The following table sets forth the range of high and low sale prices of our Common Stock obtained from the OTC Bulletin Board. These prices are believed to be representative of inter-dealer quotations, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

	Common Stock Price	
	High	Low
Year Ending July 31, 2004		
First Quarter	\$4.51	\$1.25
Second Quarter	\$5.14	\$2.65
Third Quarter	\$9.97	\$3.70

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Fourth Quarter (through May 17, 2004)	\$9.42	\$7.95
Year Ended July 31, 2003		
First Quarter	\$0.36	\$0.18
Second Quarter	\$1.01	\$0.19
Third Quarter	\$0.85	\$0.39
Fourth Quarter	\$1.45	\$0.64
Year Ended July 31, 2002		
First Quarter	\$0.96	\$0.33
Second Quarter	\$1.01	\$0.35
Third Quarter	\$0.77	\$0.42
Fourth Quarter	\$0.47	\$0.27

DIVIDEND POLICY

We have not paid dividends on our Common Stock since inception and we do not plan to pay dividends in the foreseeable future. If we realize any earnings, they will be retained to finance our growth.

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SELECTED FINANCIAL DATA

You should read the following selected financial data together with the financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The selected statement of operations data shown below as of and for the year ended July 31, 2003 and the balance sheet data as of July 31, 2003 are derived from our audited financial statements included elsewhere in this prospectus, which have been audited by J.H. Cohn LLP, independent auditors whose report contains an explanatory paragraph that states that our recurring losses from operations, net working capital deficiency and limited liquid resources raise substantial doubt about our ability to continue as a going concern. The selected statement of operations data shown below for the years ended July 31, 2002 and 2001 and the balance sheet data as of July 31, 2002 are derived from our audited financial statements included elsewhere in this prospectus, and have been audited by KPMG LLP, independent auditors whose report contains an explanatory paragraph that states that our recurring losses from operations, net working capital deficiency and limited liquid resources raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of that uncertainty. The selected statement of operations data shown below for the years ended July 31, 2000 and 1999 and the balance sheet data as of July 31, 2001, 2000 and 1999 are derived from our audited financial statements which were also audited by KPMG LLP, but are not included in this prospectus or incorporated herein by reference. The selected financial data as of January 31, 2004 and for the six months ended January 31, 2004 and 2003 and for the period from August 29, 1981 (Date of Inception) to January 31, 2004 are unaudited and, in our opinion, contain all adjustments, consisting only of normal, recurring accruals,

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which are necessary for a fair statement of the results of those periods. The selected financial data as of and for the six months ended January 31, 2004 and 2003 are unaudited and, in our opinion, such results of operations for the six months ended January 31, 2004 are not necessarily indicative of results that may be expected for the fiscal year ending July 31, 2004.

	August 24, 1981 (Date of Inception) to January 31, 2004 (unaudited)	Year Ended July 31,			
		2003	2002	2001	2000
Statement of Operations Data:					
Total revenues, principally investment income	\$ 2,038,822	\$ 39,877	\$ 4,838	\$ 13,121	\$ 51,144
Costs and Expenses:					
Costs of sales	336,495	0	0	0	0
Research and development	42,913,221	1,699,962	2,032,938	1,900,678	1,879,728
General and administrative	22,936,040	624,406	798,053	705,745	644,588
Interest	3,799,258	358,398	118,741	153,029	4,980
Total costs and expenses	69,985,014	2,682,766	2,949,732	2,759,452	2,529,296
State tax benefit	2,014,185	231,357	353,732	451,395	755,854
Net loss	\$ (65,932,007)	\$ (2,411,532)	\$ (2,591,162)	\$ (2,294,936)	\$ (1,722,298)
Net loss per common share:					
Basic and diluted		\$ (0.10)	\$ (0.12)	\$ (0.12)	\$ (0.10)
Weighted average number of common shares:					
Basic and diluted		23,166,000	21,045,000	18,927,000	17,812,000
Dividends		\$ 0	\$ 0	\$ 0	\$ 0

	Six Months Ended January 31,	
	2004	2003
	(unaudited)	(unaudited)
Statement of Operations Data:		
Total revenues, principally investment income	\$ 8,230	\$ 30,234

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Costs and Expenses:		
Costs of sales	0	0
Research and development	1,311,286	799,370
General and administrative	648,188	288,076
Interest	228,401	239,570
Total costs and expenses	2,187,875	1,327,016
State tax benefit	221,847	229,459
Net loss	\$ (1,957,798)	\$ (1,067,323)
Net loss per common share:		
Basic and diluted	\$ (0.07)	\$ (0.05)
Weighted average number of common shares:		
Basic and diluted	27,675,584	22,830,115
Dividends	\$ 0	\$ 0

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	As of July 31,			
	2003	2002	2001	2000
Balance Sheet Data:				
Total assets	\$ 495,322	\$ 228,871	\$ 201,609	\$ 488,099
Cash and cash equivalents	330,137	85,843	44,781	257,445
Working capital (deficit)	(2,404,247)	(1,666,782)	(830,610)	(303,646)
Long-term liabilities	242,516	315,929	23,663	30,251
Total stockholders' equity (deficiency)	(2,491,681)	(1,885,437)	(740,378)	(131,860)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Since our inception, we have devoted the majority of our resources to the research and development of ONCONASE(R) and related drug candidates. We have focused our resources towards the completion of the clinical program for

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unresectable, or inoperable, malignant mesothelioma.

Since ONCONASE(R) has Fast Track Designation for the treatment of malignant mesothelioma patients, we continue to have meetings and discussions with the FDA to establish mutually agreed upon parameters for the New Drug Application, or NDA to obtain marketing approval for ONCONASE(R), assuming the Phase III clinical trial for the treatment of malignant mesothelioma yields favorable results.

We received an Orphan Medicinal Product Designation for ONCONASE(R) from the European Agency for the Evaluation of Medicinal Products, or the EMEA. We continue to fulfill the EMEA requirements regarding the Marketing Authorization Application, or MAA registration requirements for ONCONASE(R) for the treatment of malignant mesothelioma.

The majority of our research and development expenses since our inception of \$42,913,221 has gone toward the development of ONCONASE(R) and related drug candidates. For the fiscal years 2003, 2002 and 2001 our research and development expenses were \$1,699,962, \$2,032,938 and \$1,900,678, respectively, the majority of which was used for the development of ONCONASE(R) and related drug candidates. Since ONCONASE(R) is currently in an international centrally randomized Phase III trial we expect that our research and development costs will continue to increase for at least the next two years. The Phase III trial is a two-part trial. While patient enrollment for the first part of the clinical trial has been completed and the trial is on-going, the second part is still in the patient enrollment stage. Both parts of the Phase III clinical trial are survival studies, which require all patients to die before the trial is completed in order to determine whether the ONCONASE(R) treatment affected the life expectancy of the patient. Therefore, since we are unable to predict when these deaths will occur and we are still engaged in patient enrollment in part two of the trial, we are currently unable to ascertain when the Phase III trial will be completed, when we will be able to file an NDA with the FDA, what our costs will be to complete this Phase III trial, when or if we will receive FDA approval or when or if we may begin marketing and selling ONCONASE(R). For a more detailed discussion of the risks involved in the length of time and the amount of costs it may take us to complete the development of ONCONASE(R), please see "Risk Factors" - "We cannot predict how long it will take us nor how much it will cost us to complete our Phase III trial because it is a survival study and we are still in patient enrollment in part two of our Phase III trial." on page 6.

We fund the research and development of our products from cash receipts resulting from the sale of our equity securities and convertible debentures in registered offerings and private placements. Additionally, we have raised capital through debt financings, the sale of our tax benefits and research products, interest income and financing received from our Chief Executive Officer. Presently, our cash balance is sufficient to fund our expanded operations through July 31, 2005 based on our expected level of expenditures in

relation to activities in preparing ONCONASE(R) for an NDA filing and other ongoing operations of the company. However, we continue to seek additional capital financing through the sale of equity in private placements, sale of our

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tax benefits and exercise of stock options and warrants but cannot be sure that we will be able to raise capital on favorable terms or at all.

Results of Operations

Three and six month periods ended January 31, 2004 and 2003

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 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, 2004 and 2003. For the six months ended January 31, 2004, our other income was \$8,200.

Research and Development. Research and development expense for the three months ended January 31, 2004 was \$674,000 compared to \$380,000 for the same period last year, an increase of \$294,000, or 77%. Research and development expense for the six months ended January 31, 2004 was \$1,311,000 compared to \$799,000 for the same period last year, an increase of \$512,000, or 64%. The increase in the current six month period was due primarily to increases in data management and consulting fees related to our pivotal Phase III clinical trial for malignant mesothelioma of approximately \$485,000 and an increase in regulatory consulting costs of approximately \$93,000, offset by a decrease in personnel costs of approximately \$66,000.

General and Administrative. General and administrative expense for the three months ended January 31, 2004 was \$420,000 compared to \$152,000 for the same period last year, an increase of \$268,000. General and administrative expense for the six months ended January 31, 2004 was \$648,000 compared to \$288,000 for the same period last year, an increase of \$360,000. The increase in the current six month period was due primarily to increases in non-cash expense related to stock and stock options issued for consulting services associated with business development activities of approximately \$118,000, increases in legal, public relations, accounting and insurance expenses of approximately \$120,000, \$70,000, \$28,000, and \$24,000, respectively.

Interest. Interest expense for the three months ended January 31, 2004 was \$110,000 compared to \$205,000 for the same period last year, a decrease of \$95,000. Interest expense for the six months ended January 31, 2004 was \$228,000 compared to \$240,000 for the same period last year, a decrease of \$12,000. The decrease in the current six month period was due primarily to the interest expense on the 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 2004 (July 1, 2003 to June 30, 2004), we had approximately \$1,378,000 total available tax benefits that were sellable, of which New Jersey permitted us to only sell approximately \$261,000. We received approximately \$222,000 from the sale of the \$261,000 of tax benefits, which we recognized as tax benefits for the six months ended January 31, 2004.

For the state fiscal year 2003 (July 1, 2002 to June 20, 2003), we had approximately \$1,373,000 in total available tax benefits that were sellable, of which New Jersey permitted us to only sell approximately \$273,000. We received approximately \$231,000 from the sale of the \$273,000 of tax benefits, which we recognized as tax benefits for the six months ended January 31, 2003.

If still available under New Jersey law, we will attempt to sell the remaining \$1,117,000 of our tax benefits, between July 1, 2004 and June 30, 2005. This amount, which is a carryover of our remaining tax benefits from state fiscal year 2004, may increase if we incur additional tax benefits during state fiscal year 2005. We can not estimate, however, what percentage of our sellable tax benefits New Jersey will permit us to sell, how much money we will receive in connection with the sale, if we will be able to find a buyer for our tax benefits or if 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, 2004 was \$1,200,000 as compared to \$737,000 for the same period last year, an increase of \$463,000. The net loss for the six months ended January 31, 2004 was \$1,958,000 as compared to \$1,067,000 for the same period last year, an increase of \$891,000. The cumulative loss from the date of inception, August 24, 1981 to January 31, 2004, amounted to \$65,932,000. We are a development stage company and accordingly, we have not derived sufficient revenues from operations to offset the development stage expenses.

Fiscal Years Ended July 31, 2003, 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 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). We did not have any sales in fiscal 2003, 2002 and 2001. Investment income for fiscal 2003 was \$10,000 compared to \$5,000 for fiscal 2002, an increase of \$5,000. The increase was due to higher balances of cash and cash equivalents. Investment income for fiscal 2002 was \$5,000 compared to \$13,000 for fiscal 2001, a decrease of \$8,000. This decrease was due to lower balances of cash and cash equivalents.

Research and Development

Research and development expense for fiscal 2003 was \$1,700,000 compared to \$2,033,000 for fiscal 2002, a decrease of \$333,000, or 16.4%. This decrease was primarily due to decreases in regulatory and clinical costs, personnel costs, and a reduction of non-cash expenses relating to stock options issued for consulting services of approximately \$236,000, \$114,000 and \$23,000, respectively. These decreases were partially offset by increases in costs relating to patent and trademark applications for ONCONASE(R) of approximately \$40,000.

Research and development expense for fiscal 2002 was \$2,033,000 compared to \$1,901,000 for fiscal 2001, an increase of \$132,000, or 7%. This increase was

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primarily due to an increase in costs in support of ongoing clinical trials for ONCONASE(R) resulting from the expansion of our Phase III clinical trials for malignant mesothelioma in Europe of approximately \$246,000. This increase was partially offset by a decrease in expenses related to outside consultants, reduction of non-cash expenses relating to stock options issued for consulting services and a decrease in costs relating to patent and trademark applications for ONCONASE(R) of approximately \$67,000, \$36,000 and \$11,000, respectively.

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General and Administrative

General and administrative expense for fiscal 2003 was \$624,000 compared to \$798,000 for fiscal 2002, a decrease of \$174,000, or 21.8%. This decrease was primarily due to decreases in costs related to public relations activities, insurance expenses, reduction in non-cash expense relating to stock options issued for consulting services, legal, personnel costs and other miscellaneous office expenses of approximately \$71,000, \$54,000, \$34,000, \$10,000 and \$5,000, respectively.

General and administrative expense for fiscal 2002 was \$798,000 compared to \$706,000 for fiscal 2001, an increase of \$92,000, or 13%. This increase was primarily due to an increase in costs related to public relations activities of approximately \$53,000, increases related to accrued payroll taxes, accounting costs, legal costs associated with business development activities and insurance expenses of approximately \$44,000, \$23,000, \$22,000 and \$14,000, respectively, offset by a decrease in non-cash expense relating to stock options issued for consulting services of approximately \$64,000.

Interest

Interest expense for fiscal 2003 was \$358,000 compared to \$119,000 in fiscal 2002, an increase of \$239,000. The increase was primarily due to the interest expense on the beneficial conversion feature of the notes payable issued to unrelated parties, the related warrants and the increase in total borrowing levels. The interest expense was based on the value of the warrants using the Black-Scholes options-pricing model, amortized on a straight-line basis over the term of the notes.

Interest expense for fiscal 2002 was \$119,000 compared to \$153,000 in fiscal 2001, a decrease of \$34,000. The decrease was primarily due to the interest expense on convertible notes and related warrants issued during the fiscal year ended 2001. The interest expense was based on the value of the warrants using the Black-Scholes options-pricing model, amortized on a straight-line basis over the term of the notes.

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 had approximately \$1,373,000 total available tax benefits that were sellable, of which New Jersey permitted us to only sell approximately \$273,000. We received approximately \$231,000 from the sale of the \$273,000 of tax benefits, which we recognized as tax benefits for fiscal 2003.

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For the state fiscal year 2002 (July 1, 2001 to June 30, 2002), we had approximately \$1,535,000 total available tax benefits that were sellable, of which New Jersey permitted us to only sell approximately \$426,000. We received approximately \$354,000 from the sale of the \$426,000 of tax benefits, which we recognized as tax benefits for fiscal 2002.

For the state fiscal year 2001 (July 1, 2000 to June 30, 2001), we had approximately \$1,774,000 total available tax benefits that were sellable, of which New Jersey permitted us to only sell approximately \$602,000. We received approximately \$451,000 from the sale of the \$602,000 of tax benefits, which we recognized as tax benefits for fiscal 2001.

If still available under New Jersey law, we will attempt to sell the remaining balance of our tax benefits in the amount of approximately \$1,100,000 between July 1, 2003 and June 30, 2004. We can not estimate, however, what percentage of our sellable tax benefits New Jersey will permit us to sell, how

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much money we will receive in connection with the sale, if we will be able to find a buyer for our tax benefits or if 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 fiscal 2003 was \$2,412,000 as compared to \$2,591,000 in fiscal 2002 and \$2,295,000 in fiscal 2001. The cumulative loss from the date of inception, August 24, 1981, to July 31, 2003 amounted to \$63,974,000. 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 reported net losses of approximately \$2,412,000, \$2,591,000, and \$2,295,000 for the fiscal years ended July 31, 2003, 2002 and 2001, respectively. The loss from date of inception, August 24, 1981, to July 31, 2003 amounts to \$63,974,000. Also, we have a working capital deficit and limited liquid resources.

We have financed our operations since inception through the sale of our equity securities and convertible debentures in registered offerings and private placements. Additionally, we have raised capital through debt financings, the sale of our tax benefits and research products, interest income and financing received from our Chief Executive Officer. During the fiscal year 2003, we had a net increase in cash and cash equivalents of \$244,000. This increase primarily resulted from net cash provided by financing activities in the amount of \$1,798,000, primarily due to proceeds from short and long-term borrowings, from the private placement of Common Stock and warrants and proceeds from the exercise of warrants, offset by net cash used in operating activities of \$1,554,000. During the six months ended January 31, 2004, we had a net increase in cash and cash equivalents of \$1,519,000, which resulted primarily from net cash provided by financing activities of \$4,150,000, which resulted from

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\$1,500,000 gross proceeds from a private placement of Common Stock and warrants with an institutional investor in September 2003, \$1,150,000 gross proceeds from warrants and stock options exercises and \$1,500,000 gross proceeds from a private placement of Common Stock at a price of \$3.96 per share and warrants at an exercise price of \$4.75 per share in January 2004, offset by net cash used in operating activities of \$2,629,000 and net cash used in investing activities of \$2,000. Total cash resources as of January 31, 2004 were \$1,849,000 compared to \$330,000 at July 31, 2003.

Our current liabilities as of July 31, 2003 were \$2,744,000 compared to \$1,798,000 at July 31, 2002, an increase of \$946,000. The increase was primarily due to the short-term maturity of notes payable of approximately \$529,000, accrued payroll and payroll taxes of approximately \$533,000 and other accrued expenses of \$21,000, offset by the reduction of accounts payable and loan payable to a related party of approximately \$97,000 and \$40,000, respectively. As of July 31, 2003, we had a total of \$644,023 in unpaid payroll and \$240,784 in unpaid payroll taxes. As of September 2003, all unpaid payroll taxes have been fully satisfied. In addition, \$115,000 in unpaid payroll was paid and since July 31, 2003, we have been current in our payroll and payroll taxes. As of July 31, 2003 our current liabilities exceeded our current assets and we had a working capital deficit of \$2,404,000. The reports of each of our independent auditors on our financial statements includes 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 current liabilities as of January 31, 2004 were \$2,182,000 compared to \$2,744,000 at July 31, 2003, a decrease of \$562,000. The decrease was primarily due to decreased accrued expenses. As of January 31, 2004, our current liabilities exceeded our current assets and we had a working capital deficit of \$83,000.

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The following transactions occurred after January 31, 2004:

- o From February 2004 through March 31, 2004, we issued 82,500 shares of Common Stock upon the exercise of stock options by employees, a former director and unrelated parties at per share exercise prices ranging from \$0.26 to \$2.80. We realized aggregate gross proceeds of \$106,100.

- o From February 2004 through April 7, 2004, we issued an aggregate 1,468,393 shares of restricted Common Stock and 1,918,393 shares of Common Stock underlying five-year warrants with an exercise price of \$1.00 per share upon the conversion of notes payable in the amount of \$514,600 by unrelated parties.

- o In March 2004, we recorded an aggregate of \$222,719 non-cash expenses for 110,000 five-year stock options that we issued to various consultants for services rendered. The options vested immediately and have a per share exercise price of \$3.46. The non-cash expenses were based upon the fair value of the options on the date of issuance as estimated by the Black-Scholes options pricing model.

- o In May 2004, we issued 1,210,654 shares of Common Stock to an existing institutional investor, resulting in gross proceeds of \$10,000,000 to us.

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In addition, the institutional investor was granted five-year warrants to purchase 1,210,654 shares of Common Stock at an exercise price of \$12.39 per share. We paid a 5% finder's fee to a third party in connection with the private placement, which included a five-year warrant to purchase 60,533 shares of Common Stock at an exercise price of \$12.39 per share.

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 revenues from 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. Through January 31, 2004, a significant portion of our financing has been through the sale of our equity securities and convertible debentures in registered offerings and private placements. Additionally, we have raised capital through debt financings, the sale of our tax benefits and research products, interest income and financing received from our Chief Executive Officer. Until and unless our operations generate significant revenues, we expect to continue to fund operations from the sources of capital previously described. There can be no assurance that we will be able to raise the capital we need on terms which are acceptable, if at all. Presently, our cash balance is sufficient to fund our expanded operations through July 31, 2005 based on our expected level of expenditures in relation to activities in preparing ONCONASE(R) for an NDA filing and other ongoing operations of the company. However, we continue to seek additional capital financing through the sale of equity in private placements, sale of our tax benefits and exercise of stock options and warrants but cannot be sure that we will be able to raise capital on favorable terms or at all. The report of our independent public accountants on our July 31, 2003 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, 2004, we continued to incur losses, had a working capital deficiency and limited liquid resources which raise substantial doubt about our ability to continue as a going concern. Our financial statements at January 31, 2004 and July 31, 2003 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 potential strategic alliance

partners 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.

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. Since April 28, 1999, our Common Stock has traded 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

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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).

Off-balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities or SPE's, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 31, 2004, we are not involved in any material unconsolidated SPE transactions.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants discuss their most "critical accounting policies" in management's discussion and analysis of financial condition and results of operations. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe based on our current business that there are no critical accounting policies. Our accounting policies are described in Note 1 to the financial statements.

Contractual Obligations and Commercial Commitments

Our major outstanding contractual obligations relate to our equipment operating lease. Below is a table that presents our contractual obligations and commercial commitments as of July 31, 2003:

	Total	Payments Due by Fiscal Year		
		2004	2005	2006 and Thereafter
Operating lease	\$30,600	\$17,500	\$13,100	\$ -0-
Total contractual cash obligations	\$30,600	\$17,500	\$13,100	\$ -0-

Changes In and Disagreements With Accountants On Accounting And Disclosure

As described in the current report on Form 8-K we filed on December 12, 2002, on December 6, 2002, KPMG LLP resigned as our independent accountants and was replaced by J.H. Cohn LLP as our independent public accountants for fiscal 2003. The engagement of J.H. Cohn LLP was approved by our Audit Committee. The reports of KPMG on the financial statements for the two fiscal years prior to their

resignation as our independent accountants contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle except that the report on our financial statements for the fiscal years ended July 31, 2002 and 2001 contained a separate paragraph stating that "the Company has suffered recurring losses from operations, has a working capital deficit and has limited liquid resources which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty." During our fiscal years ended July 31, 2002 and July 31, 2001 and through December 6, 2002, there were no disagreements between us and KPMG on any matter of accounting principles or practices, financial statement disclosures or auditing scope or procedures, which disagreements if not resolved to the satisfaction of KPMG would have caused them to make reference thereto in their report on the financial statements for such years.

On December 1, 1993, certain stockholders of Armus Harrison & Co., or AHC, terminated their association with AHC, or the AHC termination, and AHC ceased performing accounting and auditing services, except for limited accounting services to be performed on our behalf. In June 1996, AHC dissolved and ceased all operations. The report of J.H. Cohn LLP with respect to our financial statements from inception to July 31, 2003 is based on the report of KPMG LLP from August 1, 1992 to July 31, 2002 and of AHC for the period from inception to July 31, 1992, although AHC has not consented to the use of such report herein and will not be available to perform any subsequent review procedures with respect to such report. Accordingly, investors will be barred from asserting claims against AHC under Section 11 of the Securities Act on the basis of the use of such report in any registration statement into which such report is incorporated by reference. In addition, in the event any persons seek to assert a claim against AHC for false or misleading financial statements and disclosures in documents previously filed by us, such claim will be adversely affected and possibly barred. Furthermore, as a result of the lack of a consent from AHC to the use of its audit report herein, or to its incorporation by reference into a registration statement, our officers and directors will be unable to rely on the authority of AHC as experts in auditing and accounting in the event any claim is brought against such persons under Section 11 of the Securities Act based on alleged false and misleading Financial Statements and disclosures attributable to AHC. The discussion regarding certain effects of the AHC termination is not meant and should not be construed in any way as legal advice to any party and any potential purchaser should consult with his, her or its own counsel with respect to the effect of the AHC termination on a potential investment in our Common Stock or otherwise.

BUSINESS

Overview

Alfacell Corporation, is a biopharmaceutical company primarily engaged in the discovery and development of a new class of therapeutic drugs for the treatment of cancer and other pathological conditions. Based on our proprietary Ribonuclease, or RNase, which is a type of biological enzyme that splits RNA molecules and is the basis of our technology platform, our drug discovery and development program consists of novel therapeutics developed from amphibian ribonucleases. These are very basic RNA enzymes which play important roles in nature in the development of cells and their functions. RNA is an essential bio-chemical cellular component necessary to support life. There are various types of RNA, all of which have specific functions in a living cell. They help control several essential biological activities, namely, regulation of cell

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proliferation, maturation, differentiation and cell death. Therefore, they are ideal candidates for the development of therapeutics for cancer and other life-threatening diseases, including HIV and autoimmune diseases, that require anti-proliferative and apoptotic, or programmed cell death, properties. We have co-sponsored and been a key participant in the International Ribonuclease Meetings held every three years.

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ONCONASE(R), our trademark name for our flagship product, is undergoing the last stage of clinical testing, or Phase III. This Phase III trial is a two-part international centrally randomized trial for patients with unresectable malignant mesothelioma, an inoperable form of cancer found in the lining of the lung and abdomen. While patient enrollment for the first part of the clinical trial has been completed and the trial is on-going, the second part is still in the patient enrollment stage. Both parts of the Phase III trial are survival studies, which require all patients to die before the trials are completed. Because we are unable to predict when such patient deaths will occur, we are currently unable to ascertain when the trials will be completed or when we will be able to file a New Drug Application, or NDA, with the Food and Drug Administration, or FDA. We have also conducted other randomized and non-randomized trials with patients with advanced stages of solid tumors in other types of cancers.

ONCONASE(R), unlike most cancer drugs, that attack all cells regardless of their phenotype, malignant versus normal, and produce a variety of severe toxicities, is not an indiscriminate cytotoxic, or cell killing agent, but rather, its activity is controlled through unique and specific molecular mechanisms. ONCONASE(R) affects primarily exponentially growing malignant cells. ONCONASE(R) is a novel amphibian ribonuclease, unique among the superfamily of pancreatic ribonuclease that has been isolated from the eggs of the *Rana pipiens* frog, commonly called the leopard frog. We have determined that, thus far, ranpirnase, the generic name of ONCONASE(R), is the smallest known protein belonging to the superfamily of pancreatic ribonuclease and has been shown, on a molecular level, to re-regulate the unregulated growth and proliferation of cancer cells.

In December 2002, we received Fast Track Designation from the FDA for ONCONASE(R) for the treatment of malignant mesothelioma. Fast Track Designation is an FDA program designed to expedite the review of new drugs that are intended to treat serious or life threatening conditions and that demonstrate the potential to address unmet medical needs. In February 2001, we received an Orphan Medicinal Product Designation for ONCONASE(R) from the European Agency for the Evaluation of Medicinal Products, or the EMEA. Orphan Medicinal Product Designation is a program designed to provide marketing, protocol and other incentives for pharmaceutical companies to develop and market products in the European Community that address life threatening or very serious conditions that affect not more than 5 in 10,000 persons in the European Community. Orphan designation in Europe entitles the Company to 10 years of marketing exclusivity, reduced filing fees and regulatory guidance from the EMEA.

These FDA and EMEA designations for ONCONASE(R) may serve to expedite its regulatory review, assuming the clinical trials yield a positive result. Future clinical trials, however, may not demonstrate that ONCONASE(R) is effective. Thus, our applications for FDA or EMEA approval to market ONCONASE(R), which are dependent upon the success of our clinical trials, may be affected. The efficacy and safety of ONCONASE(R) for malignant mesothelioma, will ultimately be determined by the FDA. In the interim, our Fast Track Designation allows us to

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continue to have meetings and discussions with the FDA to establish mutually agreed upon parameters for the NDA to obtain marketing approval for ONCONASE(R), based on the assumption that the clinical trials will continue to yield favorable results.

Our drug discovery program forms the basis for the development of specific recombinant RNases for chemically linking drugs and other compounds such as monoclonal antibodies, growth factors, etc. and gene fusion products with the goal of targeting various molecular functions. This program provides for joint design and generation of new products with outside partners. We may own these new products along with a partner(s), or we may grant an exclusive license to the collaborating partner(s).

We have established a number of scientific collaborations with academic and research institutions including the National Cancer Institute, or NCI that are designed to develop new therapeutic applications for ONCONASE(R). One collaboration has produced RN321, a conjugate of ranpirnase, with a monoclonal

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antibody that demonstrated activity in treating non-Hodgkin's lymphoma in preclinical studies. These results were presented by the NCI investigators at the 2002 Ribonuclease Meeting in Bath, England. The NCI has undertaken the manufacturing of RN321 (the conjugate) according to Good Manufacturing Practices, or GMP regulations in preparation for commencing clinical trials for the treatment of patients with non-Hodgkin's lymphoma with RN321. Currently, the NIH has produced RN321 clinical grade like material. Clinical grade production of RN321 and Investigational New Drug Application, or IND, directed toxicology studies will require further approval from the Drug Development Group of the NIH prior to commencing human clinical trials.

We have also discovered another series of proteins, collectively named amphinases, that may have therapeutic uses. These proteins are bioactive in that they have an effect on living cells and organisms and have both anti-cancer and anti-viral activity. All of the proteins characterized to date are RNases. These products are currently undergoing preclinical testing. We are currently in discussions with potential pharmaceutical partners for the development of these new compounds as conjugates and fusion proteins.

We have entered into a research and development collaboration with a major US privately held stent and drug delivery company. ONCONASE(R) is being evaluated in stents and other delivery platforms to treat cardiovascular disease and cancer via direct site delivery. This collaboration may result in licensing agreement between the companies, however; there is no assurance that such agreement will be reached.

We have entered into a collaborative agreement (anti-viral screening, non-SARS) with the National Institute of Allergy and Infectious Diseases, or NIAID in which five potential drug candidates (natural and genetically engineered) are under evaluation against various RNA viruses.

Our research and development collaboration with Wyeth Pharmaceuticals is ongoing to develop a number of designer drugs such as conjugates and fusion proteins for a variety of indications using our technology. This collaboration may result in a licensing agreement between the companies, however; there is no

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assurance that such an agreement will be reached.

We have signed confidentiality agreements and have entered into discussions and due diligence with a number of companies for US or non-US marketing rights for ONCONASE(R) and for out-licensing some of our early drug candidates.

We are engaged in the research, development and clinical trials of our products both independently and through research collaborations. We have financed our operations since inception through the sale of our equity securities and convertible debentures in registered offerings and private placements. Additionally, we have raised capital through debt financings, the sale of our tax benefits and research products, interest income and financing received from our Chief Executive Officer. These funds provide us with the resources to acquire staff, facilities, capital equipment, finance our technology, product development, manufacturing and clinical trials. We have incurred losses since inception and to date we have not consummated any licensing, marketing or development arrangements. Presently, our cash balance is sufficient to fund our expanded operations through July 31, 2005 based on our expected level of expenditures in relation to activities in preparing ONCONASE(R) for an NDA filing and other ongoing operations of the company. However, we continue to seek additional capital financing through the sale of equity in private placements, sale of our tax benefits and exercise of stock options and warrants but cannot be sure that we will be able to raise capital on favorable terms or at all.

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Research and Development Programs

Research and development expenses for the fiscal years ended July 31, 2003, 2002, and 2001 were \$1,700,000, \$2,033,000, and \$1,901,000, respectively. Our research and development programs focus primarily on the development of therapeutics from amphibian ribonucleases. Because ribonucleases have been shown to be involved in the regulation of cell proliferation, maturation, differentiation and programmed cell death, known as apoptosis, ribonucleases may be ideal candidates for the development of therapeutics for the treatment of cancer and other life-threatening diseases, including viral and autoimmune diseases that require anti-proliferative and pro-apoptotic properties.

Technology Platform and Pipeline

Using ribonucleases as therapeutics is a relatively new approach to drug development. The use of these proteins to re-regulate the unregulated growth and proliferation of cancer cells is unlike most cancer drugs that attack all cells regardless of their phenotype, malignant versus normal, and produce a variety of severe toxicities.

ONCONASE(R) and related drug candidates are not indiscriminate cytotoxic, or cell killing, agents, but rather, their activity is controlled through unique and specific molecular mechanisms. They affect primarily exponentially growing malignant cells.

Cancer is associated with the over or under production of many types of proteins in tumor cells. We believe that the ability to selectively halt the production of certain proteins via ribonuclease activity in tumor cells without

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damaging normal cells, may make treatment of cancer more effective. To make cancer therapy more effective and less toxic, we are developing ONCONASE(R) and a related family of regulatory proteins, collectively named amphinases. These novel RNases are being developed as therapeutics as well as effector moieties (payload), or killer molecules for targeted therapies. We believe that selective degradation of intracellular proteins is central to the process of programmed cell death.

We have devoted significant resources towards the development of recombinant designer RNases for chemical conjugation and gene fusion products with various targeting moieties such as monoclonal antibodies, growth factors, cytokines, etc.

Apoptosis

Apoptosis, or programmed cell death, is essential for the proper development of embryos and of many body systems, including the central nervous system, immune regulation and others. Apoptosis is required to accommodate the billions of new cells produced daily by our bodies and to eliminate aged or damaged cells. Abnormal regulation of the apoptosis process can result in disease. For example, cancer, autoimmune disorders and many viral infections are associated with inhibited apoptosis or programmed death of cells occurring too slowly. Conversely, HIV is associated with increased apoptosis or programmed death of cells occurring too rapidly. The process of programmed cell death is genetically regulated. We believe that we are the first company to discover and develop a novel family of primordial "regulatory" proteins that have been shown to play a fundamental role in this regulatory process.

ONCONASE(R) (ranpirnase) Pro-Apoptotic Mechanisms

The molecular mechanisms were identified which determine the apoptotic cell death induced by ranpirnase. tRNA, rRNA and mRNA are all different types of RNA with specific functions in a living cell. Ranpirnase preferentially degrades tRNA, leaving rRNA and mRNA apparently undamaged. The RNA damage induced by ranpirnase appears to represent a "death signal", or triggers a chain of molecular

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events culminating in the activation of proteolytic enzyme cascades which, in turn, induces disintegration of the cellular components and finally leads to cell death. It has been shown that there is a protein synthesis inhibition-independent component, which, together with the changes induced by the protein synthesis inhibition, results in tumor cell death.

Many cancer cells become resistant to most types of cancer treatment, including chemotherapy, radiation and monoclonal antibodies. Overcoming resistance to chemotherapy remains a major challenge for cancer therapy. ONCONASE(R) has been shown to overcome multiple drug resistance or prevent resistance to cancer therapy, thereby dramatically increasing the sensitivity of certain cancer cells to chemotherapy and radiation therapy.

It remains unknown whether or not ONCONASE(R) targets and binds preferentially to tumor cells, rather than normal cells of the respective tissues. It is possible that there is no differential targeting and/or binding,

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but that tumor cells are more susceptible to the cytostatic (suppresses cancer cells from further dividing) and cytotoxic (kills cancer cells) effects of ONCONASE(R). The cytostatic effects are manifested by the inhibition of progression in the cell cycle. These effects have been associated with induction of parallel differentiation and apoptosis. The cytostatic and differentiation-inducing effects are reflected in the stabilization of previously progressive tumors observed in our clinical trials.

Clinical Studies and Preclinical Development of ONCONASE(R)

We have been very selective in our product development strategy, which is focused on the use of ONCONASE(R) alone or in combination with drugs which have shown evidence of preclinical and clinical efficacy on tumor types for which median survivals are typically less than a year and for which there are few or no approved treatments.

ONCONASE(R) has been tested in Phase I, Phase II and Phase III clinical trials in more than 40 cancer centers across the United States since 1991 and in Europe since 2000, including major centers such as Columbia-Presbyterian, University of Chicago, M.D. Anderson and Cedars-Sinai Cancer Centers.

ONCONASE(R) has been tested as a single agent in patients with a variety of solid tumors. It has also been tested in combination with tamoxifen in patients with prostate cancer, advanced pancreatic cancer and renal cell carcinoma as well as with doxorubicin in patients with malignant mesothelioma.

We have collaborated with NIH, NCI and The University of Pennsylvania Medical Center, Metabolic Magnetic Resonance Research and Computing Center, and have developed a considerable body of knowledge in RNase technology and novel RNase-based therapeutics. ONCONASE(R) has demonstrated a broad spectrum of anti-tumor activity in vitro, or studies of tumor cell lines in laboratory vessels, and was determined to kill cancer cells and therefore was judged to be "active" in the NCI Cancer Screen.

In vitro and in vivo studies showed both cytostatic (suppresses cancer cells from further dividing) and cytotoxic (kills cancer cells) antitumor activity when used as a single agent and in combination with other agents.

In Vitro

ONCONASE(R), in combination with other drugs, has been shown to be synergistic which means that the effect of ONCONASE(R) when given in combination with other drugs is greater than if the drugs were given alone. The combination of ONCONASE(R) and tamoxifen, an anti-cancer drug, resulted in a

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significant cell kill in pancreatic, prostate, and ovarian tumor cell lines as compared to each drug alone. Similar results were found with respect to the following:

- o ONCONASE(R)+ phenothiazine for non-small cell lung cancer;

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- o ONCONASE(R) + lovastatin in pancreatic, ovarian, and two types of non-small cell lung cancer;
- o ONCONASE(R) + cisplatin in ovarian cancer;
- o ONCONASE(R) + all-trans-retinoic acid in glioma (brain) cancer;
- o ONCONASE(R) + vincristine in colorectal cancer and ;
- o ONCONASE(R) + doxorubicin in breast cancer including resistant variants, malignant mesothelioma.

In Vivo Anti-Cancer Activity

ONCONASE(R) as a Single Agent

ONCONASE(R) as a single agent has shown in vivo anti-tumor activity in several mouse models of solid tumors. The following are all examples of the effect of ONCONASE(R) on various types of human cancer cells in mouse models:

- o In the human squamous A-253 carcinoma and the NIH-OVCR-3 ovarian adenocarcinoma models, ONCONASE(R) has produced prolonged survival and delayed time to development of ascites (fluid in the abdomen), respectively.
- o In mice bearing M109 Madison lung carcinoma cells, time to appearance of ascites and survival were significantly prolonged in ONCONASE(R) treated animals as compared to controls. Several histologically (microscopic study of cells) confirmed cures were noted.
- o In nude mice bearing human DU-145 prostate carcinoma and pancreatic ASPC-1 carcinoma, ONCONASE(R) inhibited growth of the subcutaneously transplanted tumor.
- o In several mouse tumor models, ONCONASE(R) not only demonstrated direct anti-tumor activity but also increased the potential for other drugs to penetrate the tumor tissue as well as increased the tumor sensitivity to radiation therapy.

ONCONASE(R) in Combination With Other Agents

Based on in vivo results, ONCONASE(R) in combination with the following known and approved anti-cancer agents has been evaluated by us, in collaboration with the NCI:

- o vincristine
- o doxorubicin
- o tamoxifen

When used in combination with vincristine, ONCONASE(R) prolonged the survival of nude mice bearing vincristine-resistant, HT-29 human colorectal carcinomas, a type of cancer cell, transfected with mdr-1 gene, a multiple drug

resistant gene. These NCI results demonstrated that ONCONASE(R) can restore the sensitivity of resistant tumor cells to chemotherapy.

NCI experiments in nude mice transplanted intravenously with human breast carcinoma cells treated with the combination of ONCONASE(R) and doxorubicin have shown significantly prolonged survival. Tumor growth was significantly inhibited as demonstrated by a decrease in the number of pulmonary metastases, or disseminated lesions in the lung, present at the time of sacrifice.

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NCI reported the ability of ONCONASE(R) to overcome multiple drug resistance as well as other forms of drug resistance (referring to a drug that no longer kills cancer cells) both in vitro and in vivo. We believe that these in vivo results demonstrate the therapeutic utility of ONCONASE(R) in chemotherapy-resistant tumors, and the findings suggest that ONCONASE(R) in combination with other agents has broad clinical application in cancer treatments.

Clinical Trials

Onconase(R) Phase III Randomized Clinical Trials

We are currently conducting a two-part Phase III clinical trial of ONCONASE(R) as a treatment for malignant mesothelioma. The first part of the Phase III trial compares ONCONASE(R) alone to doxorubicin. Doxorubicin has been considered by opinion leaders to be the most effective drug for the treatment of malignant mesothelioma. The second part of the trial compares the combination of ONCONASE(R) and doxorubicin versus doxorubicin alone. The trial is an open label, centrally randomized, controlled study. The patient enrollment for the first part of the clinical trial has been completed and the trial is on-going. The second part is currently in the enrollment stage and is being conducted in the United States, Germany and Italy.

Since ONCONASE(R) has Fast Track Designation for the treatment of malignant mesothelioma patients, we continue to have meetings and discussions with the FDA to establish mutually agreed upon parameters for the New Drug Application, or NDA, to obtain marketing approval for ONCONASE(R), assuming the Phase III clinical trial yields favorable results.

Phase III Single Agent Results

The single agent Phase III results of the Treatment Target Group, or TTG, which included 104 patients, of which 47 were treated with ONCONASE(R) and 57 were treated with doxorubicin who met the criteria for Cancer Adult Leukemia Group B, or CALGB prognostic groups 1-4, showed a median survival benefit, or MST, of 2 months for ONCONASE(R) treated patients, 11.6 months versus 9.6 months. This two month median survival difference favoring ONCONASE(R) represents a 20% advantage over the active agent, doxorubicin. Moreover, the clinical activity of ONCONASE(R) is also evident from the overall 1-year and 2-year survival rates of ONCONASE(R) versus doxorubicin, 46.8% versus 38.6% and 20.2% versus 12.3%, respectively. Doxorubicin treatment was associated with a 60% higher risk of death compared to ONCONASE(R) treatment. Tumor assessment by an independent radiologist for 53 patients revealed evidence of objective clinical activity in 17 patients in each treatment arm. Four partial responses and 13 stabilization of previously progressive disease in the ONCONASE(R) treated patients and 7 partial responses and 10 stabilization of previously progressive disease in the doxorubicin treated patients. Despite the small

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number of patients, the analysis revealed a statistically significant difference, log rank test, $p = 0.037$, in survival of the responders favoring ONCONASE(R) treated patients with an MST 23.3 versus 14.4 months for doxorubicin treated patients as well as the 2 year survival rates of 40% for ONCONASE(R) and 9% for doxorubicin. Preliminary results were presented at the 2000 American Society of Clinical Oncologists, or ASCO, meeting.

These survival advantages were recognized as clinically important in this patient population by opinion leaders and the FDA. Therefore, the FDA has requested confirmation of the survival results in the Treatment Target Group, or TTG, population in Part II of the ongoing trial.

In December 2002, we received Fast Track Designation from the FDA for ONCONASE(R) and doxorubicin for the treatment of malignant mesothelioma. Fast Track is a formal mechanism to interact with the FDA using approaches that are available to all applicants for marketing claims for drugs that are

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being developed for a serious or life-threatening disease for which there is an unmet medical need. The benefits of Fast Track include scheduled meetings to seek FDA input into development plans, the option of submitting an NDA in sections rather than all components simultaneously, and the option of requesting evaluation of studies using surrogate endpoints. We anticipate to use this designation to reduce the marketing approval timeline for ONCONASE(R).

In February 2001, we received an Orphan Medicinal Product Designation for ONCONASE(R) from the European Agency for the Evaluation of Medicinal Products, or the EMEA. Orphan Medicinal Product Designation is a program designed to provide marketing, protocol and other incentives for pharmaceutical companies to develop and market products in the European Community that address life threatening or very serious conditions that affect not more than 5 in 10,000 persons in the European Community. Orphan designation in Europe entitles the Company to 10 years of marketing exclusivity, reduced filing fees and regulatory guidance from the EMEA. We continue to fulfill the EMEA requirements regarding the Marketing Authorization Application, or MAA registration requirements for ONCONASE(R) for the treatment of malignant mesothelioma.

In part two of the ongoing Phase III trial, an interim analysis based on the occurrence of 105 deaths is planned. Based upon the results of these analyses, we may be able to file an NDA and an MAA within six months after the completion of the analyses. However, we cannot assure you that marketing approval for ONCONASE(R) as a treatment for malignant mesothelioma will be granted by the FDA or EMEA.

Based on Phase II trial results after meeting with the FDA, we had initiated a Phase III trial in patients with advanced pancreatic cancer in 1995. In the Phase II trial, the median survival time of 5.5 months for 47 patients with stage 4 disease and liver involvement treated with the combination of ONCONASE(R) weekly and tamoxifen daily was more than double the median survival of such patients reported in previously published trials treated with a variety of other systemic therapies (published median survival times ranged from 2.0 to 2.5 months). The Phase III trial was a multicenter randomized trial designed to evaluate an ONCONASE(R) and tamoxifen regimen in untreated patients as well as patients who had failed GEMZAR(R), an approved drug for pancreatic cancer. The primary endpoint of both segments of this Phase III trial was survival, however,

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early survival analyses of both segments did not reveal a significant survival advantage of ONCONASE(R) over the controls. Thus, due to the negative results of the Phase III trial, despite favorable results produced in Phase II, competitive pressures and our inability to accrue qualified patients in the clinical trials, we made a decision that further evaluation of this end-stage patient population was not warranted at that time and our resources were refocused on the ongoing malignant mesothelioma program.

ONCONASE(R) Phase II Clinical Trials

ONCONASE(R) as a single agent, demonstrated objective clinical activity in 105 patients with unresectable, or inoperable, malignant mesothelioma that included many heavily pretreated patients with refractory tumors, which are tumors that did not readily yield to the treatment. Analysis of the TTG population confirmed the importance of the CALGB prognostic groups and their utility for evaluating systemic therapies in this patient population.

Of the 100 patients treated, 41 patients, or 39%, reported evidence of clinical activity. Of the patients showing evidence of clinical activity, there were four with partial responses, two with minor responses and 35 showed evidence of stabilization of previously progressive disease. The MST of these patients was 18.5 months and the overall 1-year and 2-year survival rates were 61% and 40.8%, respectively. The results of this trial demonstrated a survival benefit for both newly diagnosed patients

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and patients who failed prior therapies. The presentation of these data to the FDA resulted in the design of our Phase III malignant mesothelioma trial.

A multicenter Phase II Broad Eligibility trial designed to evaluate ONCONASE(R) as a single agent has been conducted and results of the findings for patients with non-small cell lung cancer, or NSCLC, and advanced breast cancer were published.

ONCONASE(R) as a single agent, demonstrated objective clinical activity in patients with advanced NSCLC and breast cancer. The median survival time of 30 patients with advanced NSCLC was greater than that in 19 of 20 regimens when supportive care, a placebo or another single agent was given. Furthermore it was greater than 75% of the reported MSTs in combination chemotherapy trials. The MST and 1 year survival rates of 7.7 months and 27%, respectively, for ONCONASE(R) treated patients compared favorably to 7.2 months and 30% for patients treated with Navelbine(R) (an approved drug for this indication) as a single agent.

Thirty percent of 17 patients with advanced breast cancer demonstrated objective clinical activity, which included, one partial response, two minor responses and the significant reduction in bone pain and in one patient and the control of uncontrollable malignant fluid in the lungs of another patient.

A series of pilot Phase II studies to evaluate ONCONASE(R) as a single agent, and ONCONASE(R) and tamoxifen in previously treated patients with unresectable, or inoperable, renal cell cancer were conducted. The results of both the Phase II single agent and ONCONASE(R) and tamoxifen were published. Although the single agent study did not demonstrate evidence of clinical activity, the regimen of ONCONASE(R) and tamoxifen did demonstrate evidence of

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clinical activity which indicated further evaluation in untreated patients was warranted.

Research And Development Pipeline Of Targeted Therapies

Our drug discovery program forms the basis for the development of recombinant designer RNases for chemical conjugation and gene fusion products with various targeting moieties such as monoclonal antibodies, growth factors, cytokines, etc. We believe these products can be produced in a cost effective and controlled manufacturing environment.

This program also provides for joint design and generation of new products with outside partners. We, along with any outside partners, may own these new products jointly, or we may grant an exclusive license to the collaborating partner(s).

Ranpirnase Conjugates and Fusion Proteins

The concept of targeting potent toxins as effector molecules to kill cancer or other specifically targeted cells has been extensively evaluated over the last two decades. An immunotoxin is an antibody linked to a toxic molecule that is used to destroy specific cells. Several immunotoxins containing bacterial and plant toxins or other biotoxins, have been evaluated in human clinical trials. Efficacy has always been limited due to the high incidence of immunogenicity, or an immune response, and other intolerable toxicities, including death. Conjugation of ranpirnase to targeting ligands, or binding to other molecules, appears to eliminate this safety problem in pre-clinical studies.

We have established a number of scientific collaborations with academic and research institutions including the NCI. The objective of our collaboration with the NCI is to develop new therapeutic applications for ONCONASE(R). This collaboration has produced RN321, a conjugate of ranpirnase, with a monoclonal antibody that demonstrated activity in treating non-Hodgkin's lymphoma in preclinical

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studies. The relative benefit in killing targeted tumor cells versus non-targeted healthy cells, or the therapeutic index, is greater than 200,000-fold with this conjugate. These "proof-of-concept" results were presented at the 2002 Ribonuclease Meeting in Bath, England. The NCI has undertaken the manufacturing of RN321 (the conjugate) according to Good Manufacturing Practices, or GMP regulations in preparation for commencing clinical trials for the treatment of patients with non-Hodgkin's lymphoma with RN321. Clinical grade production of RN321 and Investigational New Drug Application, or IND, directed toxicology studies will require further approval from the Drug Development Group of the NIH prior to commencing human clinical trials.

Although ranpirnase is active against a variety of human cancers, its activity is not uniform across different tumor types. However, whether the tumor is more or less sensitive to ranpirnase as a single agent, its anti-tumor activity can be greatly augmented by conjugation to different targeting

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moieties, or groups. One of these moieties is the epidermal growth factor, or EGF, which is a ligand for the EGF receptor often hyperexpressed on malignant cells. The genetically engineered ranpirnase conjugates with EGF (rRNP-EGF) exerted significant anti-tumor activity in human cell types of the head and neck and pancreatic carcinomas, and human D54MG glioblastoma, a cancerous brain tumor cell. Other constructs target tumor blood vessel formation, which could be potentially used in a broad spectrum of solid tumors. They are in pre-clinical evaluation by our European collaborator.

Novel Amphibian Ribonucleases

All of the proteins characterized to date are RNases. Preclinical testing of the new candidates collectively called amphinases showed them to be similarly active to ranpirnase. Their chemical structure makes them ideal candidates for genetic engineering of designer products.

Research Collaborations

In addition to the above programs, we are pursuing some programs in collaboration with the NIH, NCI and The University of Pennsylvania Medical Center, Metabolic Magnetic Resonance Research and Computing Center.

We have established a number of scientific collaborations with the NIH and NCI. The objective of our collaborations with the NIH and NCI is to develop new therapeutic applications for ONCONASE(R) as well as other drug candidates.

The multiple effects of biological activity of ONCONASE(R) led to research in other areas of cancer biology. Two important areas associated with significant market opportunities are radiation therapy and control of tumor angiogenesis, or new tumor blood vessel formation. Many types of cancers undergo radiation therapy at early stages of the disease; however, success of such treatment is often limited. We believe any agent capable of enhancing tumor radiosensitivity has great market potential. Moreover, since the growth of essentially all types of cancer is dependent on new blood vessel formation, any agent that has anti-angiogenic activity, we believe, is most desirable.

Evaluation Of ONCONASE(R) As A Radiation Enhancer

The p53 gene is a tumor-suppressor gene meaning that if it malfunctions, tumors will develop. Published studies have demonstrated that ONCONASE(R) causes an increase in both tumor blood flow and in median tumor oxygen partial pressure causing tumor cells to become less resistant to radiation therapy regardless of the presence or absence of the functional p53 tumor-suppressor gene. We believe these findings further expand the profile of ONCONASE(R) in vivo activities and its potential clinical utility and market potential.

The University of Pennsylvania Medical Center, Metabolic Magnetic Resonance Research and Computing Center will further evaluate ONCONASE(R) in combination with radiation and cisplatin, an anti-cancer drug, in human lung adenocarcinoma, a form of lung cancer, in a series of animal models as well as

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look at the effects of ONCONASE(R) in the inhibition of sub-lethal damage repair (SLDR) and potentially lethal damage repair (PLDR) in human lung carcinoma cells.

ONCONASE(R) As a Resistance-Overcoming and Apoptosis-Enhancing Agent

The Fas (CD95) cell surface receptor (and its Fas ligand FasL) has been recognized as an important "death" receptor involved in the induction of the "extrinsic" pathway of apoptosis. The apoptotic pathways have been the preferred target for new drug development in cancer, autoimmune, and other therapeutic areas.

The Thoracic Surgery Branch of the NCI confirmed the synergy between ranpirnase and soluble Fas ligand (sFasL) in inducing significant apoptosis in sFasL-resistant Fas+tumor cells. These results provided rationale for using ONCONASE(R) as a potential treatment of FasL-resistant tumors and possibly other disorders such as the autoimmune lympho-proliferative syndrome (ALPS). Further research in this area is ongoing.

Evaluation Of ONCONASE(R) As An Anti-Viral Agent

A collaborative agreement (anti-viral screening, non-SARS) with the National Institute of Allergy and Infectious Diseases, or NIAID, has yielded positive results, which have been confirmed with one of our amphinases. Further evaluation of this potential therapeutic is ongoing.

The ribonucleolytic activity was the basis for testing ONCONASE(R) as a potential anti-viral agent against HIV. The NIH has performed an independent in vitro screen of ONCONASE(R) against the HIV virus type 1. The results showed ONCONASE(R) to inhibit replication of HIV by up to 99.9% after a four-day incubation period at concentrations not toxic to uninfected cells. In vitro findings by the NIH revealed that ONCONASE(R) significantly inhibited production of HIV in several persistently infected human cell lines, preferentially breaking down viral RNA while not affecting normal cellular ribosomal RNA and messenger RNAs, which are essential to cell function.

Moreover, the NIH, Division of AIDS also screened ONCONASE(R) for anti-HIV activity. ONCONASE(R) demonstrated highly significant anti-HIV activity in the monocyte/macrophage, or anti-viral, system. Ranpirnase may inhibit viral replication at several points during the life cycle of HIV, including its early phases. Ranpirnase may inhibit replication of all different HIV-1 subtypes. These properties of ranpirnase are particularly relevant in view of the extremely high and exponentially increasing rate of mutations of HIV that occur during infection, and which are primarily responsible for the development of resistance to several currently available anti-viral drugs. At present, over 50% of clinical isolates of HIV are resistant to both reverse transcriptase, mechanisms which combat viral replication, and protease inhibitors drugs, a class of anti-viral drugs. An additional 25%, while being sensitive to protease inhibitors, are resistant to RT inhibitor(s) drugs, reverse transcriptase drugs. European collaborators continue to investigate the anti-viral properties of ONCONASE(R). The ribonucleolytic activity of ONCONASE(R) suggested that it might be active against a variety of RNA viruses, including HIV and hepatitis C.

Commercial Collaborations with Pharmaceutical/Drug Delivery Companies

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A research and development collaboration with a major US privately held stent and drug delivery company is ongoing. ONCONASE(R) is being evaluated in stents and other delivery platforms to treat

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cardiovascular disease and cancer via direct site delivery. This collaboration may result in licensing agreement between the companies, however; there is no assurance that such agreement will be reached.

Our research and development collaboration with Wyeth Pharmaceuticals is ongoing to develop a number of designer drugs such as conjugates and fusion proteins for a variety of indications using our proprietary technology. This collaboration may result in a licensing agreement between the companies, however; there is no assurance that such an agreement will be reached.

Raw Materials

The major active ingredient derived from leopard frog eggs is the protein ranpirnase. We have sufficient egg inventory on hand to produce enough ONCONASE(R) to complete the current Phase III clinical trial for malignant mesothelioma and supply ONCONASE(R) for up to two years after commercialization. In addition, we can successfully produce ranpirnase by using recombinant technology; however, it may not be more cost effective.

Manufacturing

We have signed an agreement with Scientific Protein Laboratories, which will perform the intermediary manufacturing process of purifying ranpirnase. We contract with BenVenue Corporation for vial filling and with Cardinal Health for the labeling, storage and shipping of ONCONASE(R) during the Phase III trial period. Other than these arrangements, we do not have specific arrangements for the manufacture of our product. Products manufactured for use in Phase III clinical trials and for commercial sale must be manufactured in compliance with Current Good Manufacturing Practices. Scientific Protein Laboratories, BenVenue Corporation and Cardinal Health all manufacture in accordance with Current Good Manufacturing Practices. For the foreseeable future, we intend to rely on these manufacturers, or substitute manufacturers, if necessary, to manufacture our product. We believe, however, that there are substantial alternative service providers for the services for which we contract. Because we have not yet received drug approval, we utilize the services of these third party manufacturers solely on an as needed basis with prices and terms customary for companies in businesses that are similarly situated. In order to replace an existing manufacturer, we must amend our Investigational New Drug application to notify the FDA of the new manufacturer. We are dependent upon our contract manufacturers to comply with Current Good Manufacturing Practices and to meet our production requirements. It is possible that our contract manufacturers may not comply with Current Good Manufacturing Practices or deliver sufficient quantities of our products on schedule.

Marketing

We do not plan to market our products at this time. We have entered into a number of Confidential Disclosure Agreements and have been in discussions with several United States and multinational biopharmaceutical companies for the selection of suitable marketing partners for our lead product ONCONASE(R), our proprietary RNA interference technology pipeline, as well as several patented product candidates.

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We intend to enter into development and marketing agreements with third parties. We expect that under such arrangements we would grant exclusive marketing rights to our corporate partners in return for assuming further research and development cost, up-front fees, milestone payments and royalties on sales. Under these agreements, our marketing partner may have the responsibility for a significant portion of product development and regulatory approval. In the event that our marketing partner fails to develop a marketable product or fails to market a product successfully, our business may be adversely affected.

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Government Regulation

The manufacturing and marketing of pharmaceutical products in the United States requires the approval of the FDA under the Federal Food, Drug and Cosmetic Act. Similar approvals by comparable regulatory agencies are required in most foreign countries. The FDA has established mandatory procedures and safety standards that apply to the clinical testing, manufacturing and marketing of pharmaceutical products in the United States. Obtaining FDA approval for a new therapeutic may take many years and involve substantial expenditures. State, local and other authorities also regulate pharmaceutical manufacturing facilities.

As the initial step in the FDA regulatory approval process, preclinical studies are conducted in laboratory dishes and animal models to assess the drug's efficacy and to identify potential safety problems. Moreover manufacturing processes and controls for the product are required. The manufacturing information along with the results of these studies is submitted to the FDA as a part of the IND, which is filed to obtain approval to begin human clinical testing. The human clinical testing program typically involves up to three phases. Data from human trials as well as other regulatory requirements such as chemistry, manufacturing and controls, pharmacology and toxicology sections, are submitted to the FDA in an NDA or Biologics License Application, or BLA. Preparing an NDA or BLA involves considerable data collection, verification and analysis. A similar process in accordance with EMEA regulations is required to gain marketing approval in Europe. Moreover, a commercial entity must be established and approved by the EMEA in a member state of the EU at least three months prior to filing the Marketing Authorization Application, or MAA.

We have not received United States or other marketing approval for any of our product candidates and may not receive any approvals. We may encounter difficulties or unanticipated costs in our effort to secure necessary governmental approvals, which could delay or preclude us from marketing our products.

With respect to patented products, delays imposed by the governmental approval process may materially reduce the period during which we may have the exclusive right to exploit them.

Patents and Proprietary Technology

We have protected our business by applying for, and obtaining, patents and trademark registrations. We have also relied on trade secrets and know-how to protect our proprietary technology. We continue to develop our portfolio of patents, trade secrets, and know how. We have obtained, and continue to apply

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for, patents concerning our RNase-based technology.

In addition, we have filed (and we intend to continue to file) foreign counterparts of certain U.S. patent applications. Generally, we apply for patent protection in the United States, selected European countries, and Japan.

We own the following U.S. patents:

Patent No. -----	Issue Date -----	
6,423,515 B1	July 2002	covers methodology for synthesizing gene sequences of ranpirnase and a genetically engineered variant of ranpirnase
6,290,951 B1	Sept. 2001	covers alteration of the cell cycle in vivo, particularly for inducing apoptosis of tumor cells

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6,239,257 B1	May 2001	covers a family of variants of ONCONASE(R)
6,175,003 B1	Jan. 2001	covers the genes of ONCONASE(R) and a variant of ONCONASE(R)
5,728,805	Mar. 1998	covers a family of variants of ONCONASE(R)
5,595,734	Jan. 1997	covers combinations of ONCONASE(R) with certain other pharmaceuticals
5,559,212	Sept. 1996	covers the amino acid sequence of ONCONASE(R)
5,540,925	July 1996	covers combinations of ONCONASE(R) with certain other pharmaceuticals
5,529,775	June 1996	covers combinations of ONCONASE(R) with certain other pharmaceuticals
4,888,172	Dec. 1989	covers a pharmaceutical produced from fertilized frog eggs (<i>Rana pipiens</i>) and the methodology for producing it
6,649,392 B1*	Nov. 2003	covers a family of recombinant variants of ONCONASE(R)

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6,649,393 B1*

Nov. 2003

covers nucleic acids encoding recombinant variants of ONCONASE(R) and methodology for producing such variants

*We own this patent jointly with the U.S. Government.

We own the following foreign patents in Europe and Japan (European patents are validated in selected European nations):

Patent No.

EP 0 440 633	covers ONCONASE(R) and process technology for making it
EP 0 500 589 JP 2972334	cover combinations of ONCONASE(R) with certain other pharmaceuticals
EP 0 656 783	covers combinations of ONCONASE(R) with certain other pharmaceuticals
EP 0 837 878	covers a variant of ONCONASE(R)

** Assumes timely payment of all applicable maintenance fees and annuities; excludes term extensions that do or may apply.

These patents cover ONCONASE(R), a variant of ONCONASE(R), process technology for making ONCONASE(R), and combinations of ONCONASE(R) with certain other chemotherapeutics. We also have patent applications pending in the United States, Europe, and Japan. Additionally, we own one Japanese patent and have an undivided interest in two US patent applications, each relating to a Subject Invention (as that term is defined in Cooperative Research and Development Agreements, or CRADAs, to which we and the NIH are parties).

The scope of protection afforded by patents for biotechnological inventions can be uncertain, and such uncertainty may apply to our patents as well. The patent applications we have filed, or that we may file in the future, may not result in patents. Our patents may not give us competitive advantages, may be wholly or partially invalidated or held unenforceable, or may be held unfringed by products that compete with our products. Patents owned by others may adversely affect our ability to do business. Furthermore, others may independently develop products that are similar to our products or that duplicate our products, and may design around the claims of our patents. Although we believe that our patents and

patent applications are of substantial value to us, we cannot assure you that such patents and patent applications will be of commercial benefit to us, will adequately protect us from competing products or will not be challenged, declared invalid, or unfringed upon. We also rely on proprietary know-how and on trade secrets to develop and maintain our competitive position. Others may independently develop or obtain access to such know-how or trade secrets.

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Although our employees and consultants having access to proprietary information are required to sign agreements that require them to keep such information confidential, our employees or consultants may breach these agreements or these agreements may be held to be unenforceable.

Competition

In February 2004, the Food and Drug Administration granted Eli Lilly & Company approval to sell its Alimta(R) medication as an orphan drug to treat patients with pleural mesothelioma. Alimta(R) is a multi-targeted antifolate that is based upon a different mechanism of action than ONCONASE(R). To our knowledge, no other company is developing a product with the same mechanism of action as ONCONASE(R).

There may be several companies, universities, research teams or scientists which are engaged in research similar, or potentially similar to research performed by us. Some of these entities or persons may have far greater financial resources, larger research staffs and more extensive physical facilities. In addition, these entities or persons may develop products that are more effective than ours and may be more successful than us at producing and marketing their products.

We are not aware, however, of any product currently being marketed that has the same mechanism of action as our proposed anti-tumor agent, ONCONASE(R). Search of scientific literature reveals no published information that would indicate that others are currently employing this method or producing such an anti-tumor agent. However, we cannot assure you that others may not develop new treatments that are more effective than ONCONASE(R).

Employees

As of May 12, 2004, we have 12 employees, of whom 8 were engaged in research and development activities and 4 were engaged in administration and management. We have 6 employees who hold Ph.D. degrees. All of our employees are covered by confidentiality agreements. We consider relations with our employees to be excellent. None of our employees are covered by a collective bargaining agreement.

Environmental Matters

Our operations are subject to comprehensive regulation with respect to environmental, safety and similar matters by the United States Environmental Protection Agency and similar state and local agencies. Failure to comply with applicable laws, regulations and permits can result in injunctive actions, damages and civil and criminal penalties. If we expand or change our existing operations or propose any new operations, we may need to obtain additional or amend existing permits or authorizations. We spend time, effort and funds in operating our facilities to ensure compliance with environmental and other regulatory requirements.

Such efforts and expenditures are common throughout the biotechnology industry and generally should have no material adverse effect on our financial condition. The principal environmental regulatory requirements and matters known to us requiring or potentially requiring capital expenditures by us do not

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appear likely, individually or in the aggregate, to have a material adverse effect on our financial condition. We believe that we are in compliance with all current laws and regulations.

Properties

We lease a total of approximately 17,000 square feet in an industrial office building located in Bloomfield, New Jersey. Our lease expired on December 31, 2001 and we have been leasing the property on a month-to-month basis. The monthly rental obligation is \$11,333. We believe that the facility is sufficient for our needs in the foreseeable future.

Legal Proceedings

We are presently not involved in any legal proceedings.

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MANAGEMENT

Directors And Executive Officers

Name ----	Age ---	Director Since -----	Position with -----
Kuslima Shogen	59	1981	Chairman of the Board and Officer
John P. Brancaccio, C.P.A. (1) (2) (3)	55	2004	Director
Stephen K. Carter, M.D.	65	1997	Director and Chairman of Advisory Board
Donald R. Conklin (2)	67	1997	Director
James J. Loughlin, C.P.A. (1) (3)	61	2004	Director
Andrew P. Savadelis (1)	46	2004	Director and Chief Finan
Paul Weiss, Ph.D.	45	2003	Director

(1) Mr. Brancaccio, Mr. Loughlin and Mr. Savadelis were elected to our Board of Directors by our stockholders on January 14, 2004.

(2) Member of Compensation Committee.

(3) Member of Audit Committee.

Business Experience of Directors and Executive Officers

Kuslima Shogen has served as our Chief Executive Officer since September 1986, as Chairman of the Board since August 1996, as a Director since our inception and as Acting Chief Financial Officer from June 23, 1999 until March

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2004. She also served as our Chief Financial Officer from September 1986 through July 1994 and as our President from September 1986 through July 1996. Ms. Shogen formed the company in 1981 to pursue research that she had initiated while a biology student in the University Honors Program at Fairleigh Dickenson University. Prior to our founding, from 1976 to 1981 she was founder and president of a biomedical research consortium specializing in Good Laboratory Practices and animal toxicology. During that time, she also served as a consultant for the Lever Brothers Research Group. Ms. Shogen has received numerous awards for achievements in biology, including the Sigma Xi first prize from the Scientific Research Society of North America in 1974 and first prize for the most outstanding research paper in biology at the Eastern College Science Conferences competitions in 1972, 1973, and 1974. She earned a B.S. degree in 1974 and an M.S. degree in 1976 in biology from Fairleigh Dickenson University, or FDU, and also completed graduate studies in 1978 in embryology. She is a Phi Beta Kappa graduate.

John P. Brancaccio, C.P.A. joined the Board of Directors in January 2004. For the past two years, Mr. Brancaccio has been a financial consultant to life sciences companies, most recently serving specific companies which are development stage and focusing on the discovery and development of pharmaceutical and biopharmaceutical compounds and technology platforms. For approximately one year preceding that time, he was the President/Chief Operating Officer and a member of the Board of Directors for Eline Group Entertainment, a publicly traded company in the entertainment and media industry. Prior thereto, Mr. Brancaccio was the Chief Financial Officer and Americas Area Controller for Zambon Group, a Milan, Italy based multinational pharmaceutical company for eleven years. He is a Certified Public Accountant in the State of New Jersey and a graduate of Seton Hall University.

Stephen K. Carter, M.D. joined the Board of Directors in May 1997 and serves as Chairman of our Scientific Advisory Board. In addition to his positions with us, Dr. Carter also serves as a senior

clinical consultant to Sugen, Inc. From 1995 through 1997, he served as Senior Vice President of Research and Development for Boehringer-Ingelheim Pharmaceuticals. Before this, Dr. Carter spent over 13 years with Bristol-Myers Squibb, an international leader in the development of innovative anti-cancer and anti-viral therapies. He held a variety of senior executive research and development positions while at Bristol-Myers, including serving for five years as Senior Vice President of worldwide clinical research and development of its Pharmaceutical Research Institute. From 1976 to 1982, he established and directed the Northern California Cancer Program. Prior to this, he held a number of positions during a nine-year tenure at the National Cancer Institute, including the position of Deputy Director at the National Institutes of Health. He has also been a member of the faculties of the medical schools of Stanford University, the University of California at San Francisco and New York University. Dr. Carter has published extensively on the development of anti-cancer drugs, was the co-founding editor of journals devoted to cancer therapeutics or immunology, and has served on the editorial boards of a number of additional journals dedicated to cancer treatment. He is a member of the American Society of Clinical Oncology, the American Association for Cancer Research, and the Society of Surgical Oncology, as well as several other medical societies. Dr. Carter earned his B.A. from Columbia University and his M.D. from New York Medical College. He currently serves on the Board of Directors of Cytogen Corporation, Vion Pharmaceuticals, Achillion Pharmaceuticals and Sopherion Therapeutics.

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Donald R. Conklin joined the Board of Directors in May 1997. Prior to his retirement in May 1997, Mr. Conklin was a senior executive with Schering-Plough, a major worldwide pharmaceutical firm. During his more than 35 years with Schering-Plough, he held a variety of key management positions within the firm. From 1986 to 1994, he served as President of Schering-Plough Pharmaceuticals and Executive Vice-President of Schering-Plough Corporation. In this position, he was responsible for worldwide pharmaceutical operations, including the launch of INTRON A(R) (interferon alfa-2b). Prior to this, Mr. Conklin had served as President of Schering USA and had held a variety of executive marketing positions in the United States, Europe, and Latin America. Immediately preceding his retirement, he was Chairman of Schering-Plough Health Care Products and an Executive Vice President of Schering-Plough Corporation. Mr. Conklin received his B.A. with highest honors from Williams College and his M.B.A. degree from the Rutgers University School of Business. He currently serves on the Board of Directors of Ventiv Health, Inc.

James J. Loughlin, C.P.A. joined the Board of Directors in January 2004. Elected to partnership in 1973, Mr. Loughlin remained with KPMG LLP ("KPMG") until September 2003, when he retired from the Pharmaceuticals Practice, Life Sciences and Chemicals division. During his career, Mr. Loughlin served in various executive positions throughout KPMG, including Managing Partner of the firm's Milwaukee, Wisconsin office, Partner-in-Charge of Human Resources for the United States in the firm's National Executive Office in New York, and Partner-in-Charge of the Audit Practice in the firm's Short Hills, New Jersey office. Mr. Loughlin was also elected to and served on the firm's Board of Directors from 1994 until 1998. Mr. Loughlin has gained extensive experience serving multinational pharmaceutical manufacturing and distribution companies. Mr. Loughlin is a Certified Public Accountant in the States of New Jersey, New York and Wisconsin. He received his B.S. in accounting from St. Peter's College.

Andrew P. Savadelis, joined our Board of Directors in January 2004 and became our Chief Financial Officer in March 2004. Mr. Savadelis served as Chief Financial Officer, Senior Vice President, Finance from September 2002 to July 2003 for Orchid BioSciences, Inc. From January 2002 through September 2002, he was a Principal at Stratus Photonics Inc., a startup developer of optical signal conditioning products. From September 2000 to January 2002, Mr. Savadelis served as Chief Financial Officer and Executive Vice President, Finance for eMagin Corporation. Prior to this, Mr. Savadelis served as Treasurer, Senior Director of Mergers and Acquisitions and Assistant Secretary for ANADIGICS, Inc., from 1993 to 2000. From 1986 to 1993, Mr. Savadelis held several different positions

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at Bristol-Myers Squibb Company. Mr. Savadelis received his B.S. in biology from Albright College and his M.B.A. from Cornell University.

Paul Weiss, Ph.D., was appointed to our Board of Directors in February 2003. Dr. Weiss is President of Gala Design, a wholly-owned subsidiary of Cardinal Health. He had served as a director on Gala's Board from 1998 to 2001, when he joined the management team as Senior Vice President of Business Development. Prior to joining Gala Design, Dr. Weiss was Vice President of Technology and Product Licensing at 3-Dimensional Pharmaceuticals from 1998 to 2001. Prior to joining 3-Dimensional Pharmaceuticals, Dr. Weiss was Director of Licensing for Wyeth-Ayerst Laboratories, a division of Wyeth Pharmaceuticals. Dr. Weiss holds a Ph.D. in Biochemistry and an M.B.A. from the University of Wisconsin-Madison and a B.Sc. in Biochemistry from Carleton University Institute of Biochemistry in Ottawa, Ontario.

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Directors' Compensation

Directors receive no cash compensation in consideration for their serving on the Board of Directors.

In May 1997 and in December 1997, the Board of Directors and the stockholders, respectively, approved our 1997 Stock Option Plan, which, among other things, provides for automatic grants of options under a formula to non-employee directors or independent directors on an annual basis.

The formula provides that:

- o on each December 31st each independent director receives automatically an option to purchase 15,000 shares of our Common Stock, or the regular grant; and
- o on the date of each independent director's initial election to the Board of Directors, the newly elected independent director automatically receives an option to purchase the independent director's pro rata share of the regular grant which equals the product of 1,250 multiplied by the number of whole months remaining in the calendar year, or the pro rata grant.

Each option granted pursuant to a regular grant and a pro rata grant vests and becomes exercisable on December 30th following the date of grant. An option will not become exercisable as to any shares unless the independent director has served continuously on the Board during the year preceding the date on which such options are scheduled to vest and become exercisable, or from the date the independent director joined the Board until the date on which the options are scheduled to vest and become exercisable. However, if an independent director does not fulfill such continuous service requirements due to the independent director's death or disability all options held by the independent director nonetheless vest and become exercisable as described herein. An option granted pursuant to the formula remains exercisable for a period of five years after the date the option first becomes exercisable. The per share exercise price of an option granted under the formula is equal to the average of the high and low trade prices of our Common Stock for the twenty trading days preceding the date of grant.

During the fiscal year ended July 31, 2003, the following independent directors listed below were granted options under our 1997 Stock Option Plan, pursuant to the formula set forth above.

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Name	Number of Options(1)	Exercise Price
Stephen K. Carter	15,000	\$0.39
Donald R. Conklin	15,000	\$0.39
Martin F. Stadler(2)	15,000	\$0.39
Paul M. Weiss	12,500	\$0.71

(1) All of the options listed here were granted on December 31, 2002, except for the 12,500 options which were granted to Dr. Weiss on February 3, 2003, vest on December 30, 2003 and expire on December 30, 2008.

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- (2) Mr. Stadler did not stand for re-election at the Company's 2003 annual stockholders' meeting and is no longer a Director of the Company.

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended July 31, 2003, the members of the Board of Directors who served on the Compensation Committee were Donald R. Conklin, Stephen K. Carter and Martin F. Stadler, all of whom are non-employee directors and have never been an officer of Alfacell. During the fiscal year ended July 31, 2003, no executive officer of Alfacell served on the Compensation Committee or Board of Directors of any other entity which had any executive officer who also served on the Compensation Committee or Board of Directors of Alfacell.

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Summary Compensation Table

The following table provides a summary of cash and non-cash compensation for each of the last three fiscal years ended July 31, 2003, 2002 and 2001 with respect to the person serving as Alfacell's Chief Executive Officer during the year ended July 31, 2003, and Alfacell's only executive officer whose annual salary and bonus during the year ended July 31, 2003 exceeded \$100,000 (collectively, the "Named Officers").

Name and Principal Position	Year	Salary (\$)	Annual Compensation		Long-Term Compensation
			Bonus (\$)	Other Annual Compensation (\$)(1)	Securities Underlying Options (#)
Kuslima Shogen Chief Executive Officer, Chairman of the Board of Directors and Acting Chief Financial Officer	2003	\$150,000 (3)	0	0	115,000
	2002	\$150,000	0	0	115,000
	2001	\$150,000	0	0	115,000 (4)
Stanislaw Mikulski (5) Former Executive Vice President, Medical Director and Director	2003	\$ 55,000 (5)	0	0	50,000 (6)
	2002	\$130,000 (5)	0	0	50,000 (6)
	2001	\$130,000	0	0	55,000 (6)

(1) Excludes perquisites and other personal benefits that in the aggregate do not exceed the lesser of \$50,000 or 10% of the Named Officer's total annual salary and bonus.

(2) Consist of Alfacell's annual contributions to a 401(k) plan.

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- (3) Includes \$80,780 of unpaid gross salary for Ms. Shogen.
- (4) Of these options, 23,000 were exercised in March 2001 and the balance remains outstanding.
- (5) Stanislaw Mikulski resigned as the Company's Executive Vice President, Medical Director and as a member of the Board of Directors effective as of January 7, 2003. His unpaid gross salary for calendar year 2002 has been paid in full as of September 30, 2003.
- (6) Of these options, an aggregate of 74,000 shares were exercised in June 2003 and July 2003 and the balance either expired or were cancelled.

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Option Grants in Last Fiscal Year

The following table contains information concerning the grant of stock options to the Named Officers during the fiscal year ended July 31, 2003:

Name	Individual Grants				Po As Price ----- 0% (\$)
	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share) (1)	Expiration Date	
Kuslima Shogen	115,000 (3)	31.08%	\$.26	(3)	--
Stanislaw Mikulski	50,000 (3) (4)	13.51%	\$.26	(3)	--

- (1) The exercise price of these options was based on the average of the high and low trade prices of our Common Stock for the twenty trading days preceding the date of grant.
- (2) The amounts set forth in the three columns represent hypothetical gains that might be achieved by the optionees if the respective options are exercised at the end of their terms. These gains are based on assumed rates of stock price appreciation of 0%, 5% and 10%. The 0% appreciation column is included because the exercise prices of the options equal the market price of the underlying Common Stock on the date the options were granted, and thus the options will have no value unless our stock price increases above the exercise prices.
- (3) These options vest and become exercisable as to 20% of the shares on the date of grant and as to an additional 20% of the shares each year thereafter until these options are fully vested and will expire five years after the date they become exercisable.
- (4) Of these options, 10,000 were exercised in June 2003 and the balance were canceled.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES

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The following table sets forth the information with respect to the Named Officers concerning the exercise of options during 2003 and unexercised options held as of July 31, 2003.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)(1)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Exe
			Exercisable	Unexercisable	
Kuslima Shogen	None	None	267,445	230,000	\$
Stanislaw M. Mikulski	124,000	\$ 28,460	0	0	\$

(1) Based upon the fair market value of the purchased shares on the option exercise date less the exercise price paid for the shares.

(2) The fair market value of the Common Stock at the fiscal year end was based on the average of the high and low trade prices (\$1.31) for the Common Stock obtained from the OTC Bulletin Board on the last trading day of the fiscal year, July 31, 2003.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information concerning stock ownership of each person who is the beneficial owner of five percent or more of our outstanding Common Stock, each of the current directors, each of our named officers and all directors and named officers as a group as of May 12, 2004 (unless otherwise indicated). Except as otherwise noted, each person has sole voting and investment power with respect to the shares shown as beneficially owned.

Name and address of beneficial owner or identity of group(1)	Position	Aggregate number of shares beneficially owned(2)	P
Kuslima Shogen	Chief Executive Officer and Chairman of the Board	1,915,065 (4)	
John P. Brancaccio, C.P.A.	Director	0 (5)	
Stephen K. Carter, M.D.	Director and Chairman of the Scientific Advisory Board	180,000 (6)	
Donald R. Conklin	Director	455,500 (7)	
James J. Loughlin	Director	0 (8)	

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Andrew P. Savadelis	Director and Chief Financial Officer	50,000 (9)
Paul M. Weiss, Ph.D. (10)	Director	50,000 (11)
Stanislaw Mikulski	Former Executive Vice President, Medical Director and Director	624,531 (12)
SF Capital Partners, Ltd. (13)		2,083,716 (14)
The Knoll Group (15)		3,113,688 (16)
All executive officers and directors as a group (8 persons)		3,275,096 (17)

* Represents less than 1% of Alfacell's outstanding Common Stock.

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- (1) The address of all executive officers and directors is c/o Alfacell Corporation, 225 Belleville Avenue, Bloomfield, New Jersey, 07003.
- (2) All shares listed are Common Stock. Except as discussed below, none of these shares are subject to rights to acquire beneficial ownership, as specified in Rule 13d-3(1) under the Exchange Act, and the beneficial owner has sole voting and investment power, subject to community property law where applicable.
- (3) The percentage of stock outstanding for each stockholder is calculated by dividing (i) the number of shares deemed to be beneficially held by such stockholder as of the date of the calculation by (ii) the sum of (A) the number of shares of Common Stock outstanding as of the date of the calculation, plus (B) the number of shares issuable upon exercise of options or warrants held by such stockholder which were exercisable as of the date of the calculation or which will become exercisable within 60 days after the date of the calculation. Except where indicated, the calculation date for each person listed in the table is May 12, 2004.
- (4) Includes 446,445 shares underlying options which are currently exercisable or which will become exercisable within 60 days after May 12, 2004 and 110,000 shares underlying warrants which are currently exercisable or which will become exercisable within 60 days after May 12, 2004.
- (5) Does not include 13,750 shares of Common Stock underlying options which do not become exercisable until December 30, 2004.
- (6) Includes 180,000 shares underlying options which are currently exercisable or which will become exercisable within 60 days after May 12, 2004.
- (7) Includes 70,000 shares underlying options which are currently exercisable or which will become exercisable within 60 days after May 12, 2004 and

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110,000 shares underlying warrants which are currently exercisable or which will become exercisable within 60 days after May 12, 2004.

- (8) Does not include 13,750 shares of Common Stock underlying options which do not become exercisable until December 30, 2004.
- (9) Includes 50,000 shares of Common Stock underlying options which are currently exercisable or which will become exercisable within 60 days after May 12, 2004. Does not include 350,000 shares of Common Stock underlying options which vest annually or 13,750 shares of Common Stock underlying options which do not become exercisable until December 30, 2004.
- (10) Dr. Weiss joined Alfacell's Board of Directors effective as of February 3, 2003.
- (11) Dr. Weiss' beneficial ownership includes 37,500 shares underlying options which are currently exercisable or which will become exercisable within 60 days after May 12, 2004.
- (12) Stanislaw Mikulski resigned as the Company's Executive Vice President, Medical Director and as a member of the Board of Directors effective as of January 7, 2003. His beneficial ownership includes 263,281 shares underlying options which were exercisable as of January 31, 2003 or which became exercisable within 60 days after January 31, 2003. Of these options, 124,000 were exercised and the balance have since been cancelled.
- (13) Michael A. Roth and Brian J. Stark are the founding members and direct the management of Staro Asset Management, L.L.C., a Wisconsin limited liability company ("Staro"). Staro acts as investment manager and has sole power to direct the management of SF Capital Partners, Ltd., a British Virgin Islands company ("SF Capital"), which directly holds all of the shares of Common Stock. Through Staro, Messrs. Roth and Stark possess sole voting and dispositive power over all of the foregoing shares. This information concerning the stock ownership of Messrs. Roth and Stark was obtained from the Schedule 13G filed with the Securities and Exchange Commission on February 12, 2004.
- (14) This does not include 1,041,858 shares of Common Stock that are issuable to the stockholder pursuant to certain outstanding warrants, because as of May 12, 2004 such warrants were not exercisable nor will they automatically become exercisable within 60 days after May 12, 2004.
- (15) Pursuant to Item 403(a) of Regulation S-K and for purposes of this table, Knoll Capital Fund II, Europa Capital International, Inc. and Clifford and Phyllis Kalista JTWROS, are deemed to be a "group" and therefore are collectively referred to as The Knoll Group.
- (16) Includes 1,210,654 shares underlying warrants which are currently exercisable or which will become exercisable within 60 days after May 12, 2004.
- (17) Includes all shares owned beneficially by the directors and the executive officers named in the table.

Certain Relationships And Related Transactions

On July 23, 1991, the Board of Directors authorized us to pay Kuslima Shogen an amount equal to 15% of any gross royalties which may be paid to us from any license(s) with respect to our principal product, ONCONASE(R), or any other products derived from amphibian source extract, produced either as a natural, synthesized, and/or genetically engineered drug for which we own or are a co-owner of the patents, or acquire such rights in the future, for a period not to exceed the life of the patents. If we manufacture and market the drugs ourselves, we will pay an amount equal to 5% of gross sales from any products sold during the life of the patents. On April 16, 2001, this agreement was amended and clarified to provide that Ms. Shogen would receive the 15% royalty payment relating to license(s) or the 5% of the net sales from any products sold during the life of the patents but not both, unless we and a licensee both market the licensed product.

In April 2001, we issued convertible notes to Kuslima Shogen, our Chief Executive Officer and a director, two of our directors, Donald Conklin and Martin Stadler, and unrelated parties in the aggregate amount of \$366,993. Mr. Conklin is a member of our Compensation Committee. The notes were due within ninety days unless the lenders elected to exercise an option to convert their note into Common Stock at the conversion price of \$0.90 per share. One of the related parties named above elected to convert his notes into an aggregate 330,000 shares of Common Stock. In addition, upon conversion, he received three-year warrants to purchase an aggregate 330,000 shares of Common Stock at an exercise price of \$2.50 per share that will expire on July 7, 2004. In October 2001, the Board of Directors approved a change in the exercise price of the 330,000 warrants issued to the related parties from \$2.50 per share to \$1.50 per share and changed the expiration date to July 7, 2006, to conform with private placements to unrelated parties. The notes issued to the unrelated parties with an aggregate balance of \$69,993 were renewed for one hundred twenty (120) days for the same conversion price of \$0.90 per share. In addition, upon conversion, they will receive five-year warrants to purchase an aggregate 77,770 shares of Common Stock at an exercise price of \$1.50 per share. In October 2001, the remaining noteholders elected to convert an aggregate \$64,993 notes payable into an aggregate 72,214 shares of Common Stock. In addition, they received five-year warrants to purchase an aggregate 72,214 shares of Common Stock at an exercise price of \$1.50 per share.

During the fiscal years ended July 31, 2003 and 2002, our CEO made loans to us payable on demand bearing interest at 8% per annum. At July 31, 2002, we owed \$139,794 to our CEO which was repaid during the fiscal year 2003. We also owed approximately \$81,000 of gross salary to our CEO as of July 31, 2003. Also, at July 31, 2003, pursuant to a loan made prior to July 30, 2002 which has not since been materially modified, \$142,287 was due from our CEO, from which we earned approximately \$9,500 in interest.

In November 2003, we issued 25,000 five-year stock options to Paul Weiss, a current director, as payment for non-board related services. The options vested immediately and have a per share exercise price of \$3.46. We recorded a total of \$52,658 of non-cash expenses for these options, based upon the fair value on the date of the issuance as estimated by the Black-Scholes options pricing model.

In March 2004, we issued an option to Andrew Savadelis, a current director, to purchase 400,000 shares of Common Stock at a per share exercise price of \$4.75 in connection with his appointment as Chief Financial Officer of

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the Company.

SELLING SECURITYHOLDERS

Alfacell has previously filed three Registration Statements, Nos. 333-38136, 333-89166 and 333-111101, in order to register shares of its Common Stock, as well as shares of Common Stock underlying

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warrants held by certain selling stockholders. Pursuant to Rule 429 under the Securities Act of 1933, this Registration Statement also serves as a post-effective amendment to Registration Statement Nos. 333-38136, 333-89166 and 333-111101. This Registration Statement eliminates those selling stockholders who have previously sold shares pursuant to such Registration Statements and also eliminates those selling stockholders to whom Alfacell no longer has registration obligations. On January 7, 2004, Alfacell filed post-effective amendments to Registration Statement Nos. 333-38136 and 333-89166, and a pre-effective amendment to Registration Statement No. 333-111101. Of the 11,336,453 shares registered pursuant to such January 7, 2004 post-effective and pre-effective amendments, as of March 31, 2004, 485,000 shares have either been sold pursuant to the previously filed Registration Statements or Alfacell is no longer required to register such shares. Accordingly, this Registration Statement carries forward from the three previously filed Registration Statements (i) 3,889,096 shares of Common Stock and (ii) 6,962,357 shares of Common Stock underlying warrants and options, for an aggregate of 10,851,453 shares of Common Stock. As described in Registration Statements Nos. 333-38136, 333-89166 and 333-111101, Alfacell issued such shares in various private placements from February 2000 through September 2003.

In addition, this Registration Statement also registers an additional (i) 1,604,990 shares of Common Stock and (ii) 1,460,772 shares of Common Stock underlying warrants, for an aggregate of 3,065,762 shares of Common Stock, all of which have not previously been registered.

On September 3, 2003, Alfacell entered into a two-part financing agreement with SF Capital Partners, Ltd. for the initial sale of 1,704,546 shares of Common Stock and warrants to purchase 852,273 shares of Common Stock, at an exercise price of \$1.50 per share. As consideration, Alfacell received \$1,500,000. In addition, the Company agreed to grant SF Capital Partners, Ltd. a warrant to invest an additional \$1,500,000 to purchase the Company's Common Stock at an exercise price based upon a 20-day trailing average of the closing price per share of the Company's Common Stock (the "Additional Warrants").

On January 16, 2004, Alfacell issued the Additional Warrants to SF Capital. On January 29, 2004, SF Capital exercised the Additional Warrants and invested an additional \$1,500,000 to purchase the Alfacell's Common Stock at a 20-day trailing average exercise price of \$3.956. In exchange, SF Capital received 379,170 shares of Common Stock and an Exercise Warrant to purchase an additional 189,585 shares of Common Stock at a per share exercise price of \$4.75. Pursuant to the terms of the financing agreement entered into in the September private placement, Alfacell is registering the resale by SF Capital of 568,755 shares of Common Stock. Previously, Alfacell had registered the resale by SF Capital of 2,556,819 shares of Common Stock in Registration Statement No. 333-111101. Alfacell also issued 15,166 shares of restricted Common Stock to a third party as finder's fee, which are being registered pursuant to this registration statement.

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On May 11, 2004, Alfacell completed a private placement and issued 1,210,654 shares of Common Stock to Knoll Capital Fund II, Europa International, Inc. and Clifford and Phyllis Kalista JTWR0S. In addition, these entities and individuals were also granted five-year warrants to purchase an additional 1,210,654 shares of Common Stock, at an exercise price of \$12.39 per share. As consideration, Alfacell received \$10,000,000. Pursuant to the terms of the financing agreement entered into in this private placement, Alfacell is registering the resale by Knoll Capital Fund II, Europa International, Inc. and Clifford and Phyllis Kalista JTWR0S of 2,421,308 shares of Common Stock. Alfacell also paid a 5% finder's fee to a third party in connection with the private placement, which included a five-year warrant to purchase 60,533 shares of Common Stock at an exercise price of \$12.39 per share. These warrants are also being registered pursuant to this registration statement.

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We are required to maintain the effectiveness of this registration statement for a period of two years from the date this registration statement is declared effective or such earlier date when all of the shares registered hereunder have been sold or may be sold without volume limitations pursuant to Rule 144(k) of the Securities Act of 1933, as amended.

Stock Ownership

The table below sets forth the number of shares of Common Stock, including those shares of Common Stock carried forward and offered by the selling stockholders pursuant to Registration Statement Nos. 333-38136, 333-89166 and 333-111101, that are:

- o owned beneficially by each of the selling stockholders;
- o offered by each selling stockholder pursuant to this prospectus;
- o to be owned beneficially by each selling stockholder after completion of the offering, assuming that all of the warrants and options held by the selling stockholders are exercised and all of the shares offered in this prospectus are sold and that none of the other shares held by the selling stockholders, if any, are sold; and
- o the percentage to be owned by each selling stockholder after completion of the offering, assuming that all of the warrants and options held by the selling stockholders are exercised and all of the shares offered in this prospectus are sold and that none of the other shares held by the selling stockholders, if any, are sold.

For purposes of this table each selling stockholder is deemed to beneficially own:

- o the shares of Common Stock underlying all warrants and options owned by the selling stockholders as of March 31, 2004 or which were exercisable within 60 days after March 31, 2004, unless otherwise indicated; and
- o the issued and outstanding shares of Common Stock owned by the selling stockholder as of March 31, 2004, unless otherwise indicated.

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Because the selling stockholders may offer all or some portion of the above-referenced securities under this prospectus or otherwise, no estimate can be given as to the amount or percentage that will be held by the selling stockholders upon termination of any sale. In addition, the selling stockholders identified above may have sold, transferred or otherwise disposed of all or a portion of such securities since the date on which information in this table is provided, in transactions exempt from the registration requirements of the Securities Act. Information about the selling stockholders may change from time to time. Any changed information will be set forth in prospectus supplements, if required.

Except as otherwise noted, none of such persons or entities has had any material relationship with us during the past three years.

In connection with the registration of the shares of Common Stock offered in this prospectus, we will supply prospectuses to the selling stockholders.

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Name (1)	Shares Owned Prior to Offering	Shares Being Offered Pursuant to Previous Registration Statements (2)	Shares Being Offered Pursuant to Current Registration Statement	Total Shares Being Offered
Anthony, Karen (4)	208,880	135,000	0	135,000
Bachrodt, Patrick M. (5)	100,000	100,000	0	100,000
Basso Holdings, Ltd. (6)	227,273	227,273	0	227,273
Beto, David (7)	40,000	40,000	0	40,000
Bowen Gas Corporation (8)	100,000	100,000	0	100,000
Brown, Dennis (9)	163,800	100,000	0	100,000
Caasi, Krista J. (10)	5,000	5,000	0	5,000
Caasi, Santiago (11)	183,328	16,664	0	16,664
Conklin, Donald (12)	455,500	110,000	0	110,000
Danson, III Edward B. Family Trust (13)	100,000	50,000	0	50,000
DePeyster, Ashton (14)	155,553	61,110	0	61,110
DePeyster, Margo (15)	55,554	27,777	0	27,777
Dimzon, Delmer (16)	44,440	22,220	0	22,220
DKR Soundshore Strategic Holding Fund, Ltd (17)	227,273	227,273	0	227,273
DZS Computer Solutions, Inc. (18)	301,112	105,556	0	105,556
Europa International, Inc. (19)	1,766,000	0	1,185,000	1,185,000
Falkner, R. Jerry (20)	125,126	75,126	0	75,126
Furno, Robert C. and Mary E Furno (21)	25,000	25,000	0	25,000
Furst, Thomas (22)	95,000	80,000	0	80,000
Garg, Mukul (23)	180,012	55,556	0	55,556
Goodwin, Todd (24)	114,999	33,333	0	33,333
Gostine, Mark (25)	700,000	700,000	0	700,000
Hamblett, Michael (26)	28,819	28,819	0	28,819
Jacobson Living Trust (27)	290,000	175,000	0	175,000

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Kalista JTWROS, Clifford and Phyllis (28)	51,308	0	51,308	51,308
Keating, A.J. Jr., M.D. (29)	70,000	40,000	0	40,000
Knoll Capital Fund II (30)	1,296,380	0	1,185,000	1,185,000
Krogh, Jeffrey A. (31)	275,000	200,000	0	200,000
Krogh, Sally J. (32)	405,000	350,000	0	350,000
McCash Family Limited Partnership. (33)	4,566,242	1,506,570	0	1,506,570
McCash, Donna M. Irrevocable Trust (34)	351,944	177,222	0	177,222
McCash, James O. (35)	1,684,035	120,000	0	120,000
Muniz, Charles (36)	1,395,714	1,035,714	0	1,035,714
Muniz, Melba (37)	1,032,714	785,714	0	785,714
Neill, Carol (38)	120,000	120,000	0	120,000
Neill, Doug (39)	130,000	50,000	0	50,000
Number One Corporation	53,876	38,710	15,166	53,876

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Name (1)	Shares Owned Prior to Offering	Shares Being Offered Pursuant to Previous Registration Statements (2)	Shares Being Offered Pursuant to Current Registration Statement	Total Shares Being Offered
Patton, Eve M. (40)	708,334	266,667	0	266,667
Pawl, Lawrence E. (41)	200,000	200,000	0	200,000
Pisani, B. Michael (42)	60,000	30,000	0	30,000
Plikerd, William D. (43)	100,000	100,000	0	100,000
Provenzano, Matthew J. (44)	60,000	60,000	0	60,000
Samet, Roger (45)	480,000	50,000	0	50,000
Schiro, Anthony (46)	100,000	50,000	0	50,000
SF Capital Partners, Ltd. (47)	2,083,716	2,556,819	568,755	3,125,574
Shogen, Kuslima (48)	1,765,065	110,000	0	110,000
Sitao, Janine (49)	151,260	33,330	0	33,330
Stadler, Martin (50)	247,000	110,000	0	110,000
Theresa M. Provenzano Revocable Living Trust U/A (51)	40,000	40,000	0	40,000
Tweiten, Vicki K. (52)	40,000	40,000	0	40,000
VFT Special Ventures Ltd. (53)	60,533	0	60,533	60,533
Williams, Ira (54)	131,800	100,000	0	100,000
Wood, Scott (55)	80,000	80,000	0	80,000
Zaumseil, Dean R. (56)	100,000	100,000	0	100,000
Total	23,532,590	10,851,453	3,065,762	13,917,215

* Represents less than one percent of, Alfacell's outstanding Common Stock.

(1) The last name of the individual selling stockholder is listed first.

(2) Amounts represented are shares of Common Stock and shares of Common Stock

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underlying warrants that were registered pursuant to Registration Statements Nos. 333-38136 and 333-89166, previously filed with the SEC on March 3, 2003. Such shares are being offered pursuant to this combined prospectus, which serves as a post-effective amendment to such previously filed Registration Statements.

- (3) The percentage of stock outstanding for each stockholder after the offering is calculated by dividing (i) (A) the number of shares of Common Stock deemed to be beneficially held by such stockholder as of October 17, 2003, minus (B) the number of shares being offered in this offering by such stockholder (including shares underlying options and warrants) by (i) the sum of (A) the number of shares of Common Stock outstanding as of October 17, 2003 plus (B) the number of shares of Common Stock issuable upon the exercise of options and warrants held by such stockholder which were exercisable as of October 17 2003 or which will be exercisable within 60 days after October 17, 2003.
- (4) Beneficial ownership includes an aggregate of 100,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (5) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (6) Beneficial ownership includes an aggregate of 227,273 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (7) Beneficial ownership includes an aggregate of 20,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (8) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

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- (9) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (10) Beneficial ownership includes an aggregate of 5,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (11) Beneficial ownership includes an aggregate of 166,664 shares of Common Stock underlying warrants and options, of which 16,664 shares are being offered pursuant to this Registration Statement. Mr. Caasi is also the beneficial owner of an additional 5,000 shares of Common Stock underlying warrants which are held in the name of his minor daughter, Krista J. Caasi.
- (12) Mr. Conklin is a member of the Board of Directors of the Company. Beneficial ownership includes an aggregate of 180,000 shares of Common Stock underlying warrants and options, of which 110,000 shares are being

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offered pursuant to this Registration Statement.

- (13) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (14) Beneficial ownership includes an aggregate of 61,110 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement. Mr. DePeyster is also the beneficial owner of an additional 27,777 shares of Common Stock, and 27,777 shares of Common Stock underlying warrants which are held in the name of his wife, Margo DePeyster. Mr. DePeyster disclaims beneficial ownership of the shares held in the name of his wife.
- (15) Beneficial ownership includes an aggregate of 27,777 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement. Mrs. DePeyster is also the beneficial owner of an additional 94,443 shares of Common Stock, and 61,110 shares of Common Stock underlying warrants which are held in the name of her husband, Ashton DePeyster. Mrs. DePeyster disclaims beneficial ownership of the shares held in the name of her husband.
- (16) Beneficial ownership includes an aggregate of 22,220 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (17) Beneficial ownership includes an aggregate of 227,273 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (18) Beneficial ownership includes an aggregate of 55,556 shares of Common Stock underlying warrants all of which are being offered pursuant to this Registration Statement.
- (19) Beneficial ownership includes an aggregate of 592,500 shares of Common Stock underlying warrants as of May 12, 2004, all of which are being offered pursuant to this Registration Statement.
- (20) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying options.
- (21) Beneficial ownership includes an aggregate of 25,000 shares of Common Stock underlying warrants all of which are being offered pursuant to this Registration Statement.
- (22) Beneficial ownership includes an aggregate of 40,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (23) Beneficial ownership includes an aggregate of 55,556 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (24) Beneficial ownership includes an aggregate of 33,333 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (25) Beneficial ownership includes an aggregate of 350,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (26) Beneficial ownership includes an aggregate of 28,819 shares of Common

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Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

- (27) Beneficial ownership includes an aggregate of 125,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (28) Clifford and Phyllis Kalista of Clifford and Phyllis Kalista JTWR0S, are employees of a broker-dealer and purchased all shares covered by this prospectus in the ordinary course of business and, at the time of the purchase of the shares to be resold, had no agreements or understandings, directly or indirectly, with any person to distribute such shares.

Beneficial ownership includes an aggregate of 26,654 shares of Common Stock underlying warrants as of May 12, 2004, all of which are being offered pursuant to this Registration Statement.

- (29) Beneficial ownership includes an aggregate of 20,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

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- (30) Beneficial ownership includes an aggregate of 592,500 shares of Common Stock underlying warrants as of May 12, 2004, all of which are being offered pursuant to this Registration Statement.
- (31) Beneficial ownership includes an aggregate of 175,000 shares of Common Stock underlying warrants and options, of which 100,000 shares are being offered pursuant to this Registration Statement. Mr. Krogh is also the beneficial owner of an additional 205,000 shares of Common Stock, and 200,000 shares of Common Stock underlying warrants which are held in the name of his wife, Sally Krogh.
- (32) Beneficial ownership includes an aggregate of 200,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement. Mrs. Krogh is also the beneficial owner of an additional 100,000 shares of Common Stock and 175,000 shares of Common Stock underlying warrants and options, which are held in the name of her husband, Jeffrey Krogh.
- (33) Beneficial ownership includes an aggregate of 3,187,146 shares of Common Stock underlying warrants, of which 1,506,570 shares are being offered pursuant to this Registration Statement.
- (34) Beneficial ownership includes an aggregate of 177,222 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement. Mrs. McCash is also the beneficial owner of an additional 1,564,035 shares of Common Stock, and 120,000 shares of Common Stock underlying warrants which are held in the name of her husband, James McCash. Mrs. McCash disclaims beneficial ownership of the shares held in the name of her husband.
- (35) Beneficial ownership includes an aggregate of 120,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement. Mr. McCash is also the beneficial owner of an additional 174,722 shares of Common Stock, and 177,222 shares of Common Stock underlying warrants which are held in the name of his wife, Donna

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McCash Irrevocable Trust. Mr. McCash disclaims beneficial ownership of the shares held in the name of his wife.

- (36) Beneficial ownership includes an aggregate of 642,857 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement. Mr. Muniz is also the beneficial owner of an additional 639,857 shares of Common Stock, and 392,857 shares of Common Stock underlying warrants which are held in the name of his wife, Melba Muniz. Mr. Muniz disclaims beneficial ownership of the shares held in the name of his wife.
- (37) Beneficial ownership includes an aggregate of 392,857 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement. Mrs. Muniz is also the beneficial owner of an additional 752,857 shares of Common Stock, and 642,857 shares of Common Stock underlying warrants which are held in the name of her husband, Charles Muniz. Mrs. Muniz disclaims beneficial ownership of the shares held in the name of her husband.
- (38) Beneficial ownership includes an aggregate of 60,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement. Mrs. Neill is also the beneficial owner of an additional 50,000 shares of Common Stock, and 50,000 shares of Common Stock underlying warrants which are held in the name of her husband, Doug Neill.
- (39) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement. Mr. Neill is also the beneficial owner of an additional 60,000 shares of Common Stock, and 60,000 shares of Common Stock underlying warrants which are held in the name of his wife, Carol Neill.
- (40) Beneficial ownership includes an aggregate of 266,667 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (41) Beneficial ownership includes an aggregate of 200,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (42) Beneficial ownership includes an aggregate of 30,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (43) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (44) Beneficial ownership includes an aggregate of 30,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (45) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

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- (46) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (47) SF Capital Partners Ltd., an affiliate of a broker-dealer, purchased all shares covered by this prospectus in the ordinary course of business and, at the time of the purchase of the shares to be resold, had no agreements or understandings, directly or indirectly, with any person to distribute such shares.

Michael A. Roth and Brian J. Stark are the founding members and direct the management of Staro Asset Management, L.L.C., a Wisconsin limited liability company ("Staro"). Staro acts as investment manager and has sole power to direct the management of SF Capital Partners, Ltd., a British Virgin Islands company ("SF Capital"), which directly holds all of the shares of Common Stock. Through Staro, Messrs. Roth and Stark possess sole voting and dispositive power over all of the foregoing shares. Ownership prior to the offering excludes an aggregate of (i) 852,273 shares of Common Stock underlying warrants issued to SF Capital on September 3, 2003 and (ii) 189,585 shares of Common Stock underlying warrants issued to SF Capital on January 29, 2004, because the terms of such warrants preclude SF Capital from exercising the warrants if prior to or after such exercise, SF Capital or any of its affiliates beneficially own or will own in excess of 4.99% of the outstanding shares of Common Stock of the Company. The 852,273 shares of Common Stock underlying the September warrants were previously registered pursuant to Registration Statement No. 333-111101 and the 189,585 shares of Common Stock underlying the Additional Warrants are being registered pursuant to this Registration Statement.

- (48) Ms. Shogen is Chairman of the Board and Chief Executive Officer of the Company. Beneficial ownership includes an aggregate of 406,445 shares of Common Stock underlying warrants and options, of which 110,000 shares are being offered pursuant to this Registration Statement.
- (49) Beneficial ownership includes an aggregate of 108,330 shares of Common Stock underlying warrants and options, of which 33,330 shares are being offered pursuant to this Registration Statement.
- (50) Mr. Stadler was a member of the Board of Directors of the Company but did not stand for re-election at the annual meeting of stockholders held on January 14, 2004. Beneficial ownership includes an aggregate of 244,500 shares of Common Stock underlying warrants and options, of which 110,000 shares are being offered pursuant to this Registration Statement.
- (51) Beneficial ownership includes an aggregate of 20,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (52) Beneficial ownership includes an aggregate of 20,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (53) VFT Special Ventures Ltd., an affiliate of a broker-dealer, purchased all shares covered by this prospectus in the ordinary course of business and, at the time of the purchase of the shares to be resold, had no agreements or understandings, directly or indirectly, with any person to distribute such shares.

Beneficial ownership includes an aggregate of 60,533 shares of Common Stock underlying warrants as of May 12, 2004, all of which are being

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offered pursuant to this Registration Statement.

- (54) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (55) Beneficial ownership includes an aggregate of 40,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.
- (56) Beneficial ownership includes an aggregate of 50,000 shares of Common Stock underlying warrants, all of which are being offered pursuant to this Registration Statement.

DESCRIPTION OF SECURITIES

On January 14, 2004, Alfacell's stockholders approved an amendment to Alfacell's Certificate of Incorporation, as amended, to increase the number of authorized shares of Common Stock by 60,000,000 shares so that the total number of shares of Common Stock authorized for issuance is now 100,000,000 shares of Common Stock, \$0.001 par value per share, and 1,000,000 shares of preferred stock, \$0.001 par value per share.

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Common Stock

As of May 12, 2004 we had 31,969,362 shares of Common Stock issued and outstanding. Holders of our Common Stock are entitled to one vote per share in the election of directors and on all other matters on which stockholders are entitled or permitted to vote. Holders of our Common Stock are not entitled to cumulative voting rights. Therefore, holders of a majority of the shares voting for the election of directors can elect all of the directors. Subject to the terms of any outstanding series of preferred stock, the holders of Common Stock are entitled to dividends in amounts and at times as may be declared by the Board of Directors out of funds legally available. Upon liquidation or dissolution, holders of our Common Stock are entitled to share ratably in all net assets available for distribution to stockholders after payment of any liquidation preferences to holders of our preferred stock. Holders of our Common Stock have no redemption, conversion or preemptive rights.

Preferred Stock

We are currently authorized to issue 1,000,000 shares of preferred stock, \$0.001 par value per share (the "Preferred Stock"). The Certificate of Incorporation, as amended, authorizes our Board of Directors to provide by resolution, without any approval of the stockholders, for the issuance of shares of Preferred Stock and to determine the terms of such Preferred Stock. Pursuant to the authority vested in the Board of Directors, on September 2, 2003, in accordance with the Delaware General Corporation Law, Section 151, the Company adopted resolutions establishing a series of 200,000 shares of Preferred Stock to be designated as Series A Preferred Stock, par value \$0.001 per share. On February 4, 2004, the Company filed a Certificate of Elimination with the Delaware Secretary of State to eliminate the class of Series A Preferred Stock, which are no longer necessary due to the automatic reversion of the Company's

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notes from being convertible into Series A Preferred Stock to being convertible into Common Stock.

There are no shares of Preferred Stock currently outstanding.

Warrants

As of May 12, 2004 we had outstanding warrants to purchase an aggregate of 10,181,522 shares of Common Stock. Of such shares, 6,962,357 shares underlying the warrants are covered by effective registration statements on Forms S-1 and 1,460,772 shares underlying the warrants are being registered for sale under this prospectus. Such warrants are exercisable at an average price of \$2.74 per share.

Options

As of May 12, 2004, we had outstanding options to purchase 2,775,695 shares of Common Stock at an average purchase price of \$2.28 per share.

PLAN OF DISTRIBUTION

We are registering for resale by the selling stockholders and certain transferees a total of 13,917,215 shares of Common Stock, of which 5,494,086 are issued and outstanding and up to 8,423,129 are issuable upon exercise of warrants.

The Selling Stockholders and any of their pledgees, donees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of Common Stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The Selling Stockholders may use any one or more of the following methods when selling shares:

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- o ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- o block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- o purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- o an exchange distribution in accordance with the rules of the applicable exchange;
- o privately negotiated transactions;
- o short sales;
- o broker-dealers may agree with the Selling Stockholders to sell a specified number of such shares at a stipulated price per share;

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- o a combination of any such methods of sale; and
- o any other method permitted pursuant to applicable law.

The Selling Stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the Selling Stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the Selling Stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The Selling Stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The Selling Stockholders may from time to time pledge or grant a security interest in some or all of the Shares or Warrant Shares owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell shares of Common Stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

Upon the Company being notified in writing by a Selling Stockholder that any material arrangement has been entered into with a broker-dealer for the sale of Common Stock through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such Selling Stockholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such the shares of Common Stock were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, and (vi) other facts material to the transaction. In addition, upon the Company being notified in writing by a Selling Stockholder that a donee or pledge intends to sell more than 500 shares of Common Stock, a supplement to this prospectus will be filed if then required in accordance with applicable securities law.

The Selling Stockholders also may transfer the shares of Common Stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The Selling Stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts

under the Securities Act. Each Selling Stockholders has represented and warranted to the Company that it does not have any agreement or understanding, directly or indirectly, with any person to distribute the Common Stock.

The Company is required to pay all fees and expenses incident to the

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registration of the shares. The Company has agreed to indemnify the Selling Stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of the shares to be offered by this prospectus will be passed upon for us by Dorsey & Whitney, LLP, New York, New York.

EXPERTS

Our financial statements as of July 31, 2003 and the period from August 24, 1981 (the date of inception) to July 31, 2003, have been included herein and in the registration statement in reliance upon the report of J.H. Cohn LLP, independent public accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The report of J.H. Cohn LLP with respect to our financial statements from inception to July 31, 2003 is based on the reports of Armus Harrison & Co. and KPMG LLP, appearing elsewhere herein, for the period from inception to July 31, 2002. As discussed elsewhere herein, Armus Harrison & Co. ceased performing accounting and auditing services for the Company in 1993 and subsequently dissolved and ceased all operations.

The report of J.H. Cohn LLP covering the July 31, 2003 financial statements contains an explanatory paragraph that states that our recurring losses from operations, net working capital deficiency and limited liquid resources raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of that uncertainty.

Our financial statements as of July 31, 2002 and for each of the years in the two-year period ended July 31, 2002, and the period from August 24, 1981 (the date of inception) to July 31, 2002 (not presented herein), have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The report of KPMG LLP with respect to our financial statements from inception to July 31, 2002 is based on the report of Armus Harrison, appearing elsewhere herein, for the period from inception to July 31, 1992. As discussed elsewhere herein, Armus Harrison ceased performing accounting and auditing services for the Company in 1993 and subsequently dissolved and ceased all operations.

The report of KPMG LLP covering the July 31, 2002 financial statements contains an explanatory paragraph that states that our recurring losses from operations, net working capital deficiency and limited liquid resources raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of that uncertainty.

Alfacell Corporation has agreed to indemnify and hold KPMG LLP (KPMG) harmless against and from any and all legal costs and expenses incurred by KPMG in successful defense of any legal action or proceeding that arises as a result of KPMG's consent to the inclusion of its audit report on the Company's past financial statements included in this registration statement.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Exchange Act and,

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accordingly, file reports, proxy statements and other information with the SEC. These reports, proxy statements and other information filed with the SEC are available for inspection and copying at the public reference facilities maintained by the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains a site on the World Wide Web at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that filed electronically with the SEC.

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REPORTS OF INDEPENDENT AUDITORS

On December 1, 1993, certain stockholders of Armus Harrison & Co. ("AHC") terminated their association with AHC (the "AHC termination"), and AHC ceased performing accounting and auditing services, except for limited accounting services to be performed on behalf of the Company. In June 1996, AHC dissolved and ceased all operations. The report of AHC with respect to the financial statements of the Company from inception to July 31, 1992 is included herein, although AHC has not consented to the use of such report herein and will not be available to perform any subsequent review procedures with respect to such report. Accordingly, investors will be barred from asserting claims against AHC under Section 11 of the Securities Act of 1933, as amended (the "Securities Act") on the basis of the use of such report in any registration statement of the Company into which such report is incorporated by reference. In addition, in the event any persons seek to assert a claim against AHC for false or misleading financial statements and disclosures in documents previously filed by the Company, such claim will be adversely affected and possibly barred. Furthermore, as a result of the lack of a consent from AHC to the use of its audit report herein, or, to its incorporation by reference into a registration statement, the officers and directors of the Company will be unable to rely on the authority of AHC as experts in auditing and accounting in the event any claim is brought against such persons under Section 11 of the Securities Act based on alleged false and misleading financial statements and disclosures attributable to AHC. The discussion regarding certain effects of the AHC termination is not meant and should not be construed in any way as legal advice to any party and any potential purchaser should consult with his, her or its own counsel with respect to the effect of the AHC termination on a potential investment in the Common Stock of the Company or otherwise.

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Independent Auditors' Report

The Stockholders and the Board of Directors
Alfacell Corporation

We have audited the accompanying balance sheet of ALFACELL CORPORATION (A Development Stage Company) as of July 31, 2003, and the related statements of operations, stockholders' deficiency and cash flows for the year then ended and for the period from August 24, 1981 (date of inception) to July 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Alfacell Corporation for the period from August 24, 1981 to July 31, 2002 were audited by other auditors whose reports dated November 4, 2002 and December 9, 1992, except for Note 18 which is as of July 19, 1993 and Note 3 which is as of October 28, 1993, expressed unqualified opinions on those statements with explanatory paragraphs relating to the Company's ability to continue as a going concern.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

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statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and, for the effect on the period from August 24, 1981 to July 31, 2003 of the amounts for the period from August 24, 1981 to July 31, 2002, on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Alfacell Corporation as of July 31, 2003, and its results of operations and cash flows for the year then ended and for the period from August 24, 1981 to July 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

The financial statements referred to above have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered substantial losses from inception and is a development stage company. Such matters raise substantial doubt about the ability of the Company to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements referred to above do not include any adjustments that might result from the outcome of this uncertainty.

/s/ J.H. Cohn LLP

Roseland, New Jersey
September 26, 2003, except for Note 18,
which is as of October 14, 2003

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Independent Auditors' Report

The Stockholders and Board of Directors
Alfacell Corporation:

We have audited the accompanying balance sheet of Alfacell Corporation (a development stage company) as of July 31, 2002, and the related statements of operations, stockholders' equity (deficiency), and cash flows for each of the years in the two-year period ended July 31, 2002 and the period from August 24, 1981 (date of inception) to July 31, 2002 (not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Alfacell Corporation for the period from August 24, 1981 to July 31, 1992 were audited by other auditors whose report dated December 9, 1992, except as to note 18 which is July 19, 1993 and note 3 which is October 28, 1993, expressed an unqualified opinion on those statements with an explanatory paragraph regarding the Company's ability to continue as a going concern.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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In our opinion, based on our audits and, for the effect on the period from August 24, 1981 to July 31, 2002 of the amounts for the period from August 24, 1981 to July 31, 1992, on the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Alfacell Corporation as of July 31, 2002, and the results of its operations and its cash flows for each of the years in the two-year period ended July 31, 2002 and the period from August 24, 1981 to July 31, 2002 (not presented herein) in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, has a working capital deficit and has limited liquid resources which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

Short Hills, New Jersey
November 4, 2002

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Independent Auditors' Report

Board of Directors
Alfacell Corporation
Bloomfield, New Jersey

We have audited the balance sheets of Alfacell Corporation (a Development Stage Company) as of July 31, 1992 and 1991, as restated, and the related statements of operations, stockholders' deficiency, and cash flows for the three years ended July 31, 1992, as restated, and for the period from inception August 24, 1981 to July 31, 1992, as restated. In connection with our audit of the 1992 and 1991 financial statements, we have also audited the 1992, 1991 and 1990 financial statement schedules as listed in the accompanying index. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly in all material respects, the financial position of Alfacell Corporation as of July 31, 1992 and 1991, as restated, and for the three years ended July 31, 1992, as restated, and for the period from inception August 24, 1981 to July 31, 1992, as restated, and the results of operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared on a going

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concern basis which contemplates the realization of assets and the satisfaction of liability in the normal course of business. As shown in the statement of operations, the Company has incurred substantial losses in each year since its inception. In addition, the Company is a development stage company and its principal operation for production of income has not commenced. The Company's working capital has been reduced considerably by operating losses, and has a deficit net worth. These factors, among others, as discussed in Note 2 to the Notes of Financial Statements, indicates the uncertainties about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and the amount of classification of liabilities that might be necessary should the Company be unable to continue its existence.

/s/ Armus, Harrison & Co.

Armus, Harrison & Co.

Mountainside, New Jersey
December 9, 1992
Except as to Note 18 which
is July 19, 1993 and Note 3
which is October 28, 1993

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ALFACELL CORPORATION
(A Development Stage Company)

FINANCIAL STATEMENTS

Balance Sheets

July 31, 2003 and 2002

	2003	2002
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 330,137	\$ 85,843
Other assets	10,103	45,754
	-----	-----
Total current assets	340,240	131,597
Property and equipment, net of accumulated depreciation and amortization of \$1,136,183 in 2003 and \$1,120,371 in 2002	12,795	28,607
Loan receivable, related party	142,287	68,667
	-----	-----
Total assets	\$ 495,322	\$ 228,871
	=====	=====

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

Current liabilities:

 Current portion of long-term debt, net of debt discount of

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\$187,121 at July 31, 2003	\$ 637,080	\$ 8,179
Loan payable, related party	--	139,794
Accounts payable	699,429	796,128
Accrued expenses	1,407,978	854,278
	-----	-----
Total current liabilities	2,744,487	1,798,379
Long-term debt, less current portion, net of debt discount of \$163,687 at July 31, 2003	242,516	315,929
	-----	-----
Total liabilities	2,987,003	2,114,308
	-----	-----
Commitments and contingencies		
Stockholders' deficiency:		
Preferred stock, \$.001 par value. Authorized and unissued, 1,000,000 shares at July 31, 2003 and 2002	--	--
Common stock \$.001 par value. Authorized 40,000,000 shares; issued and outstanding 25,026,129 shares and 22,760,921 shares at July 31, 2003 and 2002, respectively	25,026	22,761
Capital in excess of par value	61,457,502	59,654,479
Deficit accumulated during development stage	(63,974,209)	(61,562,677)
	-----	-----
Total stockholders' deficiency	(2,491,681)	(1,885,437)
	-----	-----
Total liabilities and stockholders' deficiency	\$ 495,322	\$ 228,871
	=====	=====

See accompanying notes to financial statements.

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ALFACELL CORPORATION
(A Development Stage Company)

Statements of Operations

Years ended July 31, 2003, 2002 and 2001,
and the Period from August 24, 1981
(Date of Inception) to July 31, 2003

	August 24, 1981 (date of inception) to July 31, 2003	2003	2002
	-----	-----	-----
Revenues:			
Sales	\$ 553,489	\$ --	\$
Investment income	1,387,000	9,877	4,
Other income	90,103	30,000	
	-----	-----	-----
	2,030,592	39,877	4,
	-----	-----	-----

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Cost and expenses:			
Cost of sales	336,495	--	
Research and development	41,601,935	1,699,962	2,032,
General and administrative	22,287,852	624,406	798,
Interest:			
Related parties	1,147,547	--	4,
Others	2,423,310	358,398	114,
	-----	-----	-----
	67,797,139	2,682,766	2,949,
	-----	-----	-----
Loss before state tax benefit	(65,766,547)	(2,642,889)	(2,944,
State tax benefit	1,792,338	231,357	353,
	-----	-----	-----
Net loss	\$ (63,974,209)	\$ (2,411,532)	\$ (2,591,
	=====	=====	=====
Loss per basic and diluted common share		\$ (0.10)	\$ (0
		=====	=====
Weighted average number of shares outstanding		23,166,000	21,045,
		=====	=====

See accompanying notes to financial statements.

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ALFACELL CORPORATION
(A Development Stage Company)

Statement of Stockholders' Equity (Deficiency)

Period from August 24, 1981
(Date of Inception) to July 31, 2003

	Common Stock		
	Number of Shares	Amount	Capital In Excess of par Value
	-----	-----	-----
Issuance of shares to officers and stockholders for equipment, research and development, and expense reimbursement	712,500	\$ 713	\$ 212,987
Issuance of shares for organizational legal service	50,000	50	4,950
Sale of shares for cash, net	82,143	82	108,418
Adjustment for 3 for 2 stock split declared September 8, 1982	422,321	422	(422)
Net loss	--	--	--
	-----	-----	-----

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Balance at July 31, 1982	1,266,964	1,267	325,933
Issuance of shares for equipment	15,000	15	13,985
Sale of shares to private investors	44,196	44	41,206
Sale of shares in public offering, net	660,000	660	1,307,786
Issuance of shares under stock grant program	20,000	20	109,980
Exercise of warrants, net	1,165	1	3,494
Net loss	--	--	--
Balance at July 31, 1983	2,007,325	2,007	1,802,384
Exercise of warrants, net	287,566	287	933,696
Issuance of shares under stock grant program	19,750	20	101,199
Issuance of shares under stock bonus plan for directors and consultants	130,250	131	385,786
Net loss	--	--	--
Balance at July 31, 1984	2,444,891	2,445	3,223,065
Issuance of shares under stock grant program	48,332	48	478,057
Issuance of shares under stock bonus plan for directors and consultants	99,163	99	879,379
Shares canceled	(42,500)	(42)	(105,783)
Exercise of warrants, net	334,957	335	1,971,012
Net loss	--	--	--
Balance at July 31, 1985	2,884,843	2,885	6,445,730
Issuance of shares under stock grant program	11,250	12	107,020
Issuance of shares under stock bonus plan for directors and consultants	15,394	15	215,385
Exercise of warrants, net	21,565	21	80,977
Net loss	--	--	--
Balance at July 31, 1986 (carried forward)	2,933,052	2,933	6,849,112

	Subscription Receivable	Deferred compensation, restricted stock	Total Stockholders' Equity (Deficiency)
	-----	-----	-----
Issuance of shares to officers and stockholders for equipment, research and development, and expense reimbursement	\$ --	\$ --	\$ 213,700
Issuance of shares for organizational legal service	--	--	5,000
Sale of shares for cash, net	--	--	108,500
Adjustment for 3 for 2 stock split declared September 8, 1982	--	--	--
Net loss	--	--	(121,486)
Balance at July 31, 1982	--	--	205,714
Issuance of shares for equipment	--	--	14,000
Sale of shares to private investors	--	--	41,250
Sale of shares in public offering, net	--	--	1,308,446
Issuance of shares under stock grant program	--	--	110,000
Exercise of warrants, net	--	--	3,495
Net loss	--	--	(558,694)

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Balance at July 31, 1983	-----	-----	-----	1,124,211
Exercise of warrants, net	--	--	--	933,983
Issuance of shares under stock grant program	--	--	--	101,219
Issuance of shares under stock bonus plan for directors and consultants	--	--	--	385,917
Net loss	--	--	--	(1,421,083)
Balance at July 31, 1984	-----	-----	-----	1,124,247
Issuance of shares under stock grant program	--	--	--	478,105
Issuance of shares under stock bonus plan for directors and consultants	--	--	--	879,478
Shares canceled	--	--	--	(105,825)
Exercise of warrants, net	--	--	--	1,971,347
Net loss	--	--	--	(2,958,846)
Balance at July 31, 1985	-----	-----	-----	1,388,506
Issuance of shares under stock grant program	--	--	--	107,032
Issuance of shares under stock bonus plan for directors and consultants	--	--	--	215,400
Exercise of warrants, net	--	--	--	80,998
Net loss	--	--	--	(2,138,605)
Balance at July 31, 1986 (carried forward)	-----	-----	-----	(346,669)

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ALFACELL CORPORATION
(A Development Stage Company)

Statement of Stockholders' Equity (Deficiency), Continued

	Common Stock				
	Number of Shares	Amount	Capital In Excess of par Value	Common Stock to be Issued	Def Accum Dur Devel St
	-----	-----	-----	-----	-----
Balance at July 31, 1986 (brought forward)	2,933,052	\$ 2,933	\$ 6,849,112	--	\$ (7,
Exercise of warrants at \$10.00 per share	14,745	15	147,435	--	
Issuance of shares under stock bonus plan for directors and consultants	5,000	5	74,995	--	
Issuance of shares for services	250,000	250	499,750	--	
Sale of shares to private investors, net	5,000	5	24,995	--	
Net loss	--	--	--	--	(2,

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Balance at July 31, 1987	3,207,797	3,208	7,596,287	--	(9,
Issuance of shares for legal and consulting services	206,429	207	724,280	--	
Issuance of shares under employment incentive program	700,000	700	2,449,300	--	
Issuance of shares under stock grant program	19,000	19	66,481	--	
Exercise of options at \$3.00 per share	170,000	170	509,830	--	
Issuance of shares for litigation settlement	12,500	12	31,125	--	
Exercise of warrants at \$7.06 per share	63,925	64	451,341	--	
Sale of shares to private investors	61,073	61	178,072	--	
Amortization of deferred compensation, restricted stock	--	--	--	--	
Net loss	--	--	--	--	(3,
Balance at July 31, 1988	4,440,724	4,441	12,006,716	--	(13,
Sale of shares for litigation settlement	135,000	135	1,074,703	--	
Conversion of debentures at \$3.00 per share	133,333	133	399,867	--	
Sale of shares to private investors	105,840	106	419,894	--	
Exercise of options at \$3.50 per share	1,000	1	3,499	--	
Issuance of shares under employment agreement	750,000	750	3,749,250	--	
Issuance of shares under the 1989 Stock Plan	30,000	30	149,970	--	
Amortization of deferred compensation, restricted stock	--	--	--	--	
Net loss	--	--	--	--	(2,
Balance at July 31, 1989	5,595,897	5,596	17,803,899	--	(16,
Issuance of shares for legal and consulting services	52,463	52	258,725	--	
Issuance of shares under the 1989 Stock Plan	56,000	56	335,944	--	
Sale of shares for litigation settlement	50,000	50	351,067	--	
	Subscription Receivable	Deferred compensation, restricted stock	Total Stockholders' Equity (Deficiency)		
Balance at July 31, 1986 (brought forward)	\$ --	\$ --	\$ (346,669)		

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Exercise of warrants at \$10.00 per share	--	--	147,450
Issuance of shares under stock bonus plan for directors and consultants	--	--	75,000
Issuance of shares for services	--	--	500,000
Sale of shares to private investors, net	--	--	25,000
Net loss	--	--	(2,604,619)
	-----	-----	-----
Balance at July 31, 1987	--	--	(2,203,838)
Issuance of shares for legal and consulting services	--	--	724,487
Issuance of shares under employment incentive program	--	(2,450,000)	--
Issuance of shares under stock grant program	--	--	66,500
Exercise of options at \$3.00 per share	--	--	510,000
Issuance of shares for litigation settlement	--	--	31,137
Exercise of warrants at \$7.06 per share	--	--	451,405
Sale of shares to private investors	--	--	178,133
Amortization of deferred compensation, restricted stock	--	449,167	449,167
Net loss	--	--	(3,272,773)
	-----	-----	-----
Balance at July 31, 1988	--	(2,000,833)	(3,065,782)
Sale of shares for litigation settlement	--	--	1,074,838
Conversion of debentures at \$3.00 per share	--	--	400,000
Sale of shares to private investors	--	--	420,000
Exercise of options at \$3.50 per share	--	--	3,500
Issuance of shares under employment agreement	--	(3,750,000)	--
Issuance of shares under the 1989 Stock Plan	--	(150,000)	--
Amortization of deferred compensation, restricted stock	--	1,050,756	1,050,756
Net loss	--	--	(2,952,869)
	-----	-----	-----
Balance at July 31, 1989	--	(4,850,077)	(3,069,557)
Issuance of shares for legal and consulting services	--	--	258,777
Issuance of shares under the 1989 Stock Plan	--	(336,000)	--
Sale of shares for litigation settlement	--	--	351,117

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ALFACELL CORPORATION
(A Development Stage Company)

Statement of Stockholders' Equity (Deficiency), Continued

	Common Stock			Common	De
	Number of	Amount	Capital In	Stock to	Acco
	Shares		Excess of par	be	D
			Value	Issued	Dev
	-----	-----	-----	-----	-----
Exercise of options at \$3.00 - \$3.50 per share	105,989	\$ 106	\$ 345,856	--	\$
Sale of shares to private investors	89,480	90	354,990	--	
Issuance of shares under employment agreement	750,000	750	3,749,250	--	
Conversion of debentures at \$5.00 per share	100,000	100	499,900	--	
Amortization of deferred compensation, restricted stock	--	--	--	--	
Net loss	--	--	--	--	(
Balance at July 31, 1990	6,799,829	6,800	23,699,631	--	(2
Exercise of options at \$6.50 per share	16,720	16	108,664	--	
Issuance of shares for legal consulting services	87,000	87	358,627	--	
Issuance of shares under the 1989 Stock Plan	119,000	119	475,881	--	
Amortization of deferred compensation, restricted stock	--	--	--	--	
Net loss	--	--	--	--	(
Balance at July 31, 1991	7,022,549	7,022	24,642,803	--	(2
Exercise of options at \$3.50 per share	1,000	1	3,499	--	
Sale of shares to private investors	70,731	71	219,829	--	
Conversion of debentures at \$5.00 per share	94,000	94	469,906	--	
Issuance of shares for services	45,734	46	156,944	--	
Issuance of shares under the 1989 Stock Plan	104,000	104	285,896	--	
Amortization of deferred compensation, restricted stock	--	--	--	--	
Net loss	--	--	--	--	(
Balance at July 31, 1992	7,338,014	7,338	25,778,877	--	(3

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Sale of share to private investors	352,667	353	735,147	--
Issuance of shares for legal services	49,600	50	132,180	--
Issuance of shares for services	5,000	5	9,995	--
Issuance of shares under the 1989 Stock Plan	117,000	117	233,883	--
Amortization of deferred compensation, restricted stock	--	--	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance at July 31, 1993	7,862,281	7,863	26,890,082	--
Conversion of debentures at \$2.75 per share to \$6.00 per share	425,400	425	1,701,575	--
Sale of shares to private investors, net	743,000	743	1,710,048	--
Conversion of short-term borrowings	72,800	73	181,927	--
Issuance of shares for services	16,200	16	43,334	--
Issuance of shares under the 1989 Stock Plan, for services	5,000	5	14,995	--

	Subscription Receivable	Deferred compensation, restricted stock	Total Stockholders' Equity (Deficiency)
	-----	-----	-----
Exercise of options at \$3.00 - \$3.50 per share	\$ --	\$ --	\$ 345,962
Sale of shares to private investors	--	--	355,080
Issuance of shares under employment agreement	--	(3,750,000)	--
Conversion of debentures at \$5.00 per share	--	--	500,000
Amortization of deferred compensation, restricted stock	--	3,015,561	3,015,561
Net loss	--	--	(4,860,116)
	-----	-----	-----
Balance at July 31, 1990	--	(5,920,516)	(3,103,176)
Exercise of options at \$6.50 per share	--	--	108,680
Issuance of shares for legal consulting services	--	--	358,714
Issuance of shares under the 1989 Stock Plan	--	(476,000)	--
Amortization of deferred compensation, restricted stock	--	2,891,561	2,891,561
Net loss	--	--	(5,202,302)
	-----	-----	-----
Balance at July 31, 1991	--	(3,504,955)	(4,946,523)
Exercise of options at \$3.50 per share	--	--	3,500
Sale of shares to private investors	--	--	219,900

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Conversion of debentures at \$5.00 per share	--	--	470,000
Issuance of shares for services	--	--	156,990
Issuance of shares under the 1989 Stock Plan	--	(286,000)	--
Amortization of deferred compensation, restricted stock	--	3,046,726	3,046,726
Net loss	--	--	(4,772,826)
	-----	-----	-----
Balance at July 31, 1992	--	(744,229)	(5,822,233)
Sale of share to private investors	--	--	735,500
Issuance of shares for legal services	--	--	132,230
Issuance of shares for services	--	(10,000)	--
Issuance of shares under the 1989 Stock Plan	--	(234,000)	--
Amortization of deferred compensation, restricted stock	--	664,729	664,729
Net loss	--	--	(2,357,350)
	-----	-----	-----
Balance at July 31, 1993	--	(323,500)	(6,647,124)
Conversion of debentures at \$2.75 per share to \$6.00 per share	--	--	1,702,000
Sale of shares to private investors, net	--	--	1,710,791
Conversion of short-term borrowings	--	--	182,000
Issuance of shares for services	--	--	43,350
Issuance of shares under the 1989 Stock Plan, for services	--	--	15,000

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ALFACELL CORPORATION
(A Development Stage Company)

Statement of Stockholders' Equity (Deficiency), Continued

	Common Stock			
	Number of Shares	Amount	Capital In Excess of par Value	Common Stock to be Issued
	-----	-----	-----	-----
Issuance of options to related parties upon conversion of accrued interest, payroll and expenses	--	\$ --	\$ 3,194,969	--
Repurchase of stock options from related party	--	--	(198,417)	--

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Issuance of options upon conversion of accrued interest	--	--	142,441	--
Common stock to be issued	--	--	--	50,000
Amortization of deferred compensation, restricted stock	--	--	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance at July 31, 1994	9,124,681	9,125	33,680,954	50,000
Sale of shares to private investors, net	961,000	961	2,023,241	(50,000)
Conversion of short-term borrowings	17,600	17	43,983	--
Issuance of shares for services	30,906	31	77,234	--
Exercise of options at \$2.27 - \$2.50 per share	185,000	185	437,015	--
Common stock to be issued	--	--	--	339,008
Common stock to be issued, for services	--	--	--	4,800
Amortization of deferred compensation, restricted stock	--	--	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance at July 31, 1995	10,319,187	10,319	36,262,427	343,808
Sale of shares to private investors, net	2,953,327	2,953	8,969,655	(339,008)
Issuance of shares for services	19,995	20	70,858	(4,800)
Exercise of options at \$2.50 - \$3.87 per share	566,700	567	1,657,633	--
Sale of warrants	--	--	12,084	--
Issuance of options/warrants for services	--	--	50,872	--
Common stock to be issued	--	--	--	258,335
Subscription receivable	--	--	--	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance at July 31, 1996	13,859,209	13,859	47,023,529	258,335
Sale of shares to private investors, net	112,000	112	503,888	--
Issuance of options for services	--	--	76,504	--
Exercise of options at \$2.45 - \$4.00 per share, net	729,134	729	2,620,359	(258,335)
Exercise of warrants at \$5.00 per share, net	147,450	148	737,102	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance at July 31, 1997	14,847,793	14,848	50,961,382	--
	Subscription Receivable	Deferred compensation, restricted stock	Total Stockholders' Equity (Deficiency)	
	-----	-----	-----	
Issuance of options to related parties upon conversion of accrued interest, payroll and	\$ --	\$ --	\$ 3,194,969	

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expenses			
Repurchase of stock options from related party	--	--	(198,417)
Issuance of options upon conversion of accrued interest	--	--	142,441
Common stock to be issued	--	--	50,000
Amortization of deferred compensation, restricted stock	--	265,000	265,000
Net loss	--	--	(2,234,428)
	-----	-----	-----
Balance at July 31, 1994	--	(58,500)	(1,774,418)
Sale of shares to private investors, net	--	--	1,974,202
Conversion of short-term borrowings	--	--	44,000
Issuance of shares for services	--	--	77,265
Exercise of options at \$2.27 - \$2.50 per share	--	--	437,200
Common stock to be issued	--	--	339,008
Common stock to be issued, for services	--	--	4,800
Amortization of deferred compensation, restricted stock	--	58,500	58,500
Net loss	--	--	(1,993,123)
	-----	-----	-----
Balance at July 31, 1995	--	--	(832,566)
Sale of shares to private investors, net	--	--	8,633,600
Issuance of shares for services	--	--	66,078
Exercise of options at \$2.50 - \$3.87 per share	--	--	1,658,200
Sale of warrants	--	--	12,084
Issuance of options/warrants for services	--	--	50,872
Common stock to be issued	--	--	258,335
Subscription receivable	(254,185)	--	(254,185)
Net loss	--	--	(2,942,152)
	-----	-----	-----
Balance at July 31, 1996	(254,185)	--	6,650,266
Sale of shares to private investors, net	--	--	504,000
Issuance of options for services	--	--	76,504
Exercise of options at \$2.45 - \$4.00 per share, net	254,185	--	2,616,938
Exercise of warrants at \$5.00 per share, net	--	--	737,250
Net loss	--	--	(5,018,867)
	-----	-----	-----
Balance at July 31, 1997	--	--	5,566,091

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ALFACELL CORPORATION
(A Development Stage Company)

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Statement of Stockholders' Equity (Deficiency), Continued

	Common Stock			
	Number of Shares	Amount	Capital In Excess of par Value	Common Stock to be Issued
Balance at July 31, 1997 (brought forward)	14,847,793	\$ 14,848	\$ 50,961,382	--
Sale of shares to private investors, net	2,337,150	2,337	4,199,877	--
Issuance of options for services	--	--	199,954	--
Exercise of warrants at \$2.20 - \$2.50 per share	4,950	5	11,080	--
Issuance of shares for services, net	50,000	50	99,950	--
Net loss	--	--	--	--
Balance at July 31, 1998	17,239,893	17,240	55,472,243	--
Issuance of options for services	--	--	205,593	--
Issuance of shares for services, net	46,701	46	16,359	--
Net loss	--	--	--	--
Balance at July 31, 1999 (carried forward)	17,286,594	17,286	55,694,195	--
Sale of shares to private investors, net	875,000	875	547,417	--
Exercise of options at \$0.43 - \$1.43 per share	95,000	95	45,755	--
Issuance of shares for services, net	174,965	175	92,009	--
Vesting of options previously issued for services	--	--	146,912	--
Net loss	--	--	--	--
Balance at July 31, 2000	18,431,559	18,431	56,526,288	--
Sale of shares to private investors, net	863,331	863	955,561	--
Exercise of options at \$0.29 - \$0.85 per share	165,555	166	83,565	--
Issuance of shares for services, net	11,800	12	10,018	--
Exercise of convertible debentures at \$0.90 per share	330,000	330	296,670	--
Issuance of warrants with convertible debt	--	--	178,807	--
Issuance of options for	--	--	160,426	--

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services				
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance at July 31, 2001	19,802,245	19,802	58,211,335	--
Sale of shares to private investors, net	2,622,122	2,623	1,047,925	--
Exercise of stock options and warrants	186,000	186	92,814	--
Issuance of shares for services, net	78,340	78	64,048	--
Exercise of convertible debentures at \$0.90 per share	72,214	72	64,921	--
Vesting of options previously issued for services	--	--	173,436	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance at July 31, 2002	22,760,921	22,761	59,654,479	--

	Subscription Receivable	Deferred compensation, restricted stock	Total Stockholders' Equity (Deficiency)
	-----	-----	-----
Balance at July 31, 1997 (brought forward)	\$ --	\$ --	\$ 5,566,091
Sale of shares to private investors, net	--	--	4,202,214
Issuance of options for services	--	--	199,954
Exercise of warrants at \$2.20 - \$2.50 per share	--	--	11,085
Issuance of shares for services, net	--	--	100,000
Net loss	--	--	(6,387,506)
	-----	-----	-----
Balance at July 31, 1998	--	--	3,691,838
Issuance of options for services	--	--	205,593
Issuance of shares for services, net	--	--	16,405
Net loss	--	--	(3,156,636)
	-----	-----	-----
Balance at July 31, 1999 (carried forward)	--	--	757,200
Sale of shares to private investors, net	--	--	548,292
Exercise of options at \$0.43 - \$1.43 per share	--	--	45,850
Issuance of shares for services, net	--	--	92,184
Vesting of options previously issued for services	--	--	146,912
Net loss	--	--	(1,722,298)
	-----	-----	-----

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Balance at July 31, 2000	--	--	(131,860)
Sale of shares to private investors, net	--	--	956,424
Exercise of options at \$0.29 - \$0.85 per share	--	--	83,731
Issuance of shares for services, net	--	--	10,030
Exercise of convertible debentures at \$0.90 per share	--	--	297,000
Issuance of warrants with convertible debt	--	--	178,807
Issuance of options for services	--	--	160,426
Net loss	--	--	(2,294,936)
	-----	-----	-----
Balance at July 31, 2001	--	--	(740,378)
Sale of shares to private investors, net	--	--	1,050,548
Exercise of stock options and warrants	--	--	93,000
Issuance of shares for services, net	--	--	64,126
Exercise of convertible debentures at \$0.90 per share	--	--	64,993
Vesting of options previously issued for services	--	--	173,436
Net loss	--	--	(2,591,162)
	-----	-----	-----
Balance at July 31, 2002	--	--	(1,885,437)

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ALFACELL CORPORATION
(A Development Stage Company)

Statement of Stockholders' Equity (Deficiency), Continued

	Common Stock			
	Number of Shares	Amount	Capital In Excess of par Value	Common Stock to be Issued
	-----	-----	-----	-----
Balance at July 31, 2002 (brought forward)	22,760,921	\$ 22,761	\$ 59,654,479	--
Sale of shares to private investors, net	1,315,000	1,315	652,312	--
Exercise of stock options and warrants	764,000	764	376,896	--
Issuance of shares for payment of accounts payable	186,208	186	94,037	--

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Issuance of options for services rendered	--	--	75,521	--
Vesting of options previously issued for services	--	--	10,038	--
Issuance of warrants in connection with debt issuances	--	--	594,219	--
Net loss	--	--	--	--
	-----	-----	-----	-----
Balance at July 31, 2003	25,026,129	\$ 25,026	\$ 61,457,502	\$ --
	=====	=====	=====	=====

	Subscription Receivable	Deferred compensation, restricted stock	Total Stockholders' Equity (Deficiency)
	-----	-----	-----
Balance at July 31, 2002 (brought forward)	\$ --	\$ --	\$ (1,885,437)
Sale of shares to private investors, net	--	--	653,627
Exercise of stock options and warrants	--	--	377,660
Issuance of shares for payment of accounts payable	--	--	94,223
Issuance of options for services rendered	--	--	75,521
Vesting of options previously issued for services	--	--	10,038
Issuance of warrants in connection with debt issuances	--	--	594,219
Net loss	--	--	(2,411,532)
	-----	-----	-----
Balance at July 31, 2003	\$ --	\$ --	\$ (2,491,681)
	=====	=====	=====

See accompanying notes to financial statements.

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ALFACELL CORPORATION
(A Development Stage Company)

Statements of Cash Flows

Years ended July 31, 2003, 2002 and 2001,
and the Period from August 24, 1981
(Date of Inception) to July 31, 2003

August 24, 1981

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	(date of inception) to July 31, 2003	2003	2002
	-----	-----	-----
Cash flows from operating activities:			
Net loss	\$ (63,974,209)	\$ (2,411,532)	\$ (2,591,162)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on sale of marketable securities	(25,963)	--	--
Depreciation and amortization	1,547,218	15,812	38,948
Loss on disposal of property and equipment	18,926	--	--
Noncash operating expenses	6,117,612	85,559	207,947
Amortization of debt discount	243,411	243,411	--
Amortization of deferred compensation	11,442,000	--	--
Amortization of organization costs	4,590	--	--
Changes in assets and liabilities:			
(Increase) decrease in other current assets	(69,970)	35,651	(2,821)
(Increase) decrease in other assets	(46,236)	(73,620)	(22,327)
Increase in loans and interest payable, related party	744,539	--	--
Increase (decrease) in accounts payable	1,153,888	(2,476)	450,282
Increase in accrued payroll and expenses, related parties	2,348,145	--	--
Increase in accrued expenses	1,949,491	553,700	388,465
	-----	-----	-----
Net cash used in operating activities	(38,546,558)	(1,553,495)	(1,530,668)
	-----	-----	-----
Cash flows from investing activities:			
Purchase of marketable securities	(290,420)	--	--
Proceeds from sale of marketable equity securities	316,383	--	--
Purchase of property and equipment	(1,406,836)	--	--
Patent costs	(97,841)	--	--
	-----	-----	-----
Net cash used in investing activities	(1,478,714)	--	--
	-----	-----	-----

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ALFACELL CORPORATION
(A Development Stage Company)

Statements of Cash Flows, Continued

	August 24, 1981 (date of inception) to July 31, 2003	2003	2002
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from short-term borrowings	\$ 874,500	\$ 25,000	\$
Payment of short-term borrowings	(653,500)	(25,000)	(5,
Increase (decrease) in loans payable, related			

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party, net	2,628,868	(139,794)	139,
Proceeds from bank debt and other long-term debt, net of deferred debt costs	3,667,460	915,000	300,
Reduction of bank debt and long-term debt	(2,951,164)	(8,704)	(6,
Proceeds from issuance of Common Stock, net	30,014,338	653,627	1,050,
Proceeds from exercise of stock options and warrants, net	6,060,914	377,660	93,
Proceeds from issuance of convertible debentures, related party	297,000	--	
Proceeds from issuance of convertible debentures, unrelated party	416,993	--	
	-----	-----	-----
Net cash provided by financing activities	40,355,409	1,797,789	1,571,
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	330,137	244,294	41,
Cash and cash equivalents at beginning of period	--	85,843	44,
	-----	-----	-----
Cash and cash equivalents at end of period	\$ 330,137	\$ 330,137	\$ 85,
	=====	=====	=====
Supplemental disclosure of cash flow information - interest paid	\$ 1,707,338	\$ 24,697	\$ 20,
	=====	=====	=====
Noncash financing activities:			
Issuance of convertible subordinated debenture for loan payable to officer	\$ 2,725,000	\$ --	\$
	=====	=====	=====
Issuance of Common Stock upon the conversion of convertible subordinated debentures, related party	\$ 3,242,000	\$ --	\$
	=====	=====	=====
Conversion of short-term borrowings to Common Stock	\$ 226,000	\$ --	\$
	=====	=====	=====
Conversion of accrued interest, payroll and expenses by related parties to stock options	\$ 3,194,969	\$ --	\$
	=====	=====	=====
Repurchase of stock options from related party	\$ (198,417)	\$ --	\$
	=====	=====	=====
Conversion of accrued interest to stock options	\$ 142,441	\$ --	\$
	=====	=====	=====

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ALFACELL CORPORATION
(A Development Stage Company)

Statements of Cash Flows, Continued

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	August 24, 1981 (date of inception) to July 31, 2003	2003	2002
	-----	-----	-----
Conversions of accounts payable to Common Stock	\$ 454,549 =====	\$ 94,223 =====	\$ 64,223 =====
Conversion of notes payable, bank and accrued interest to long-term debt	\$ 1,699,072 =====	\$ -- =====	\$ -- =====
Conversion of loans and interest payable, related party and accrued payroll and expenses, related parties to long-term accrued payroll and other, related party	\$ 1,863,514 =====	\$ -- =====	\$ -- =====
Issuance of Common Stock upon the conversion of convertible subordinated debentures, other	\$ 191,993 =====	\$ -- =====	\$ 64,223 =====
Issuance of Common Stock for services rendered	\$ 2,460 =====	\$ -- =====	\$ -- =====
Issuance of warrants with notes payable	\$ 594,219 =====	\$ 594,219 =====	\$ -- =====

See accompanying notes to financial statements.

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Years ended July 31, 2003, 2002 and 2001
and the Period From August 24, 1981
(Date of Inception) to July 31, 2003

(1) Summary of Significant Accounting Policies

Business Description

Alfacell Corporation (the "Company") was incorporated in Delaware on August 24, 1981 for the purpose of engaging in the discovery, investigation and development of a new class of anti-cancer drugs and anti-viral agents. 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 its business. Its planned principal operations have not commenced and, accordingly, no significant revenue has been derived therefrom.

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The Company's current operations encompass all the risks inherent in discovering and developing a new drug, including: an uncertainty regarding the timing and amount of future revenues to be derived from the Company's technology; obtaining future capital as needed; attracting and retaining key personnel; and a business environment with heightened competition, rapid technological change and strict government regulations.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures in these financial statements. Actual results could differ from those estimates.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging from three to seven years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operations for the period.

The cost of repairs and maintenance is charged to operations as incurred; significant renewals and betterments are capitalized.

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less, at the time of purchase, to be cash equivalents.

Research and Development

Research and development costs are expensed as incurred.

Fair Value of Financial Instruments

For all financial instruments, their carrying value approximates fair value due to the short maturity of those instruments. Debt instruments have been issued at rates which represent prevailing market rates for similar financings.

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

- (1) Summary of Significant Accounting Policies, (Continued)

Comprehensive Income (Loss)

The net loss of \$2,412,000, \$2,591,000 and \$2,295,000 recorded for the years ended July 31, 2003, 2002 and 2001, respectively, is equal to the comprehensive loss for those periods in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income".

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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 per common share equals net income divided by the sum of weighted average common shares outstanding during the period, adjusted for the effects of potentially dilutive securities. The Company's Basic and Diluted per share amounts are the same since the Company is in a loss position and the assumed exercise of stock options and warrants would be all anti-dilutive. The number of outstanding options and warrants that could dilute earnings per share in future periods was 9,663,023, 9,040,881 and 6,445,748 at July 31, 2003, 2002 and 2001, respectively.

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in business circumstances occur that indicate that the carrying amount of the assets may not be recoverable. The Company assesses the recoverability of long-lived assets held and to be used based on undiscounted cash flows, and measures the impairment, if any, using discounted cash flows. SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, has not had a material impact on the Company's financial position, operating results or cash flows.

Stock Option Plans

Statements of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123"), provides for the use of a fair value based method of accounting for employee stock compensation. However, SFAS 123 also allows an entity to continue to measure compensation cost for stock options granted to employees and directors using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), which only requires charges to compensation expense for the excess, if any, of the fair value of the underlying stock at the date a stock option is granted (or at an appropriate subsequent measurement date) over the amount the employee must pay to acquire the stock, if such amounts differ materially from the historical amounts. The Company has elected to continue to account for employee stock options using the intrinsic value method under Opinion 25.

Pursuant to SFAS 123, shares, warrants or options issued in connection with debt financing agreements or to non-employees for services are accounted for based on their fair market value determined using the Black-Scholes option pricing model.

Pro forma net loss and loss per share reflecting approximate compensation cost for the fair value of stock options awarded to employees using the Black-Scholes option pricing model are as follows:

	2003 -----	2002 -----	2001 -----
Net Loss:			
As reported	\$(2,411,532)	\$(2,591,162)	\$(2,294,
Less total stock-based employee compensation expense determined under a fair value based method for all awards, net of related tax effects	(152,598)	(169,708)	(227,

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Pro forma	----- \$(2,564,130) =====	----- \$(2,760,870) =====	----- \$(2,522,000) =====
Loss per common share:			
As reported	\$ (0.10)	\$ (0.12)	\$ (0.10)
Pro forma	(0.11)	(0.13)	(0.11)

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

Accounting For Warrants Issued With Convertible Debt

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 over the terms of the notes payable. 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.

(2) Liquidity

The Company has reported net losses of approximately \$2,412,000, \$2,591,000, and \$2,295,000 for the fiscal years ended July 31, 2003, 2002 and 2001, respectively. The loss from date of inception, August 24, 1981, to July 31, 2003 amounts to \$63,974,000. Also, the Company has a working capital deficit and limited liquid resources. These factors raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts or classification of liabilities which 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), the primary anti-cancer product being developed by the Company, licensing 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 or be available on acceptable terms. Through July 31, 2003, 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 raised capital through the sale of a portion of its tax benefits. Until the Company's operations generate significant revenues, the Company will continue to fund operations from cash on hand and through the sources of capital previously described. During the fiscal year ended

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July 31, 2003, the Company received gross proceeds of approximately \$2,241,000 from long-term and short-term borrowings from unrelated parties, from the private placement of Common Stock and warrants, proceeds from the exercise of warrants and options and from the sale of its tax benefits. No assurances can be provided that the additional capital will be sufficient to meet the Company's needs.

The Company will continue to incur costs in conjunction with its U.S. and foreign registrations for marketing approval of ONCONASE(R). The Company is currently in discussion 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 its pipeline as well as its proprietary technology. However, there can be no assurance that any such alliances will materialize. The Company intends to seek foreign marketing approvals for ONCONASE(R) for the treatment of malignant mesothelioma. Therefore, the Company expanded its ongoing clinical trial internationally. The Company's ability to raise funding at this time may be dependent upon other factors including, without limitation, market conditions, and such funds may not be available or be available on acceptable terms.

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ALFACELL CORPORATION
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NOTES TO FINANCIAL STATEMENTS, Continued

The Company's 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, the Company's Common Stock trades on the OTC Bulletin Board under the symbol "ACEL". Delisting of the Company's Common Stock from Nasdaq could have a material adverse effect on its ability to raise additional capital, its stockholders' liquidity and the price of its Common Stock.

(3) Property and Equipment

Property and equipment, at cost, consists of the following at July 31:

	2003	2002
	-----	-----
Laboratory equipment	\$ 755,040	\$ 755,040
Office equipment	296,105	296,105
Leasehold improvements	97,833	97,833
	-----	-----
Total	1,148,978	1,148,978
Less accumulated depreciation and amortization	1,136,183	1,120,371
	-----	-----
Property and equipment, net	\$ 12,795	\$ 28,607
	=====	=====

(4) Long-term Debt

Long-term debt consists of the following at July 31:

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	2003	2002
	-----	-----
Notes payable, unsecured, unrelated party at 8% and 8.5% interest, net of debt discount of \$350,808 at July 31, 2003 with maturity dates during fiscal years July 31, 2004 and 2005	\$564,192	\$
Notes payable, unsecured, unrelated party at 8% interest and due as follows: \$100,000 due December 4, 2003, \$100,000 due February 17, 2004 and \$100,000 Due March 29, 2004	300,000	300,000
Note payable, in monthly installments of \$1,459, including principal and interest commencing April 2000 and each month thereafter until March 2005, secured by equipment	15,404	24,000
	-----	-----
	879,596	324,000
Less current portion	637,080	8,000
	-----	-----
	\$242,516	\$315,000
	=====	=====

During the fiscal year ended July 31, 2003, the Company issued 8% convertible notes payable to unrelated parties with principal balances totaling an aggregate of \$915,000. These notes payable are scheduled to mature on various dates from April 2004 through May 2005 and are convertible into the Company's Common Stock at exercise prices ranging from \$0.20 to \$0.50 per share. Additionally, with the issuance of the notes payable, the Company issued to the unrelated parties warrants to purchase an aggregate of 665,000 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 an aggregate of 915,000 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 at a total of \$219,259 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 \$219,259 for the fair value of the

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ALFACELL CORPORATION
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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.

Pursuant to the applicable guidance in the consensus for EITF Issue No. 00-27, the Company valued the beneficial conversion feature using the effective conversion price. Accordingly, the Company first allocated \$219,259 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 \$374,960 which was allocated to additional paid-in capital and debt discount which is being amortized as interest expense over the terms of the notes payable. At July 31, 2003,

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the notes were convertible into 4,157,143 shares of Common Stock.

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ALFACELL CORPORATION
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NOTES TO FINANCIAL STATEMENTS, Continued

(4) Long-term Debt, (Continued)

The notes require principal payments in each of the years subsequent to July 31, 2003 as follows:

Year Ending July 31, -----	Amount -----
2004	\$ 815,000
2005	400,000

Total	\$1,215,000 =====

(5) Related Party

During the fiscal year ended July 31, 2003, the Company's CEO has made loans to the Company payable on demand bearing interest at 8% per annum. As of July 31, 2002, the Company owed \$139,794 which was classified as a current liability included in Loan payable, related party. During the fiscal year ended July 31, 2003, the amount owed was repaid. Amounts due from the Company's CEO totaled \$142,287 and \$68,667 at July 31, 2003 and 2002, respectively, 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 earned approximately \$9,500 interest on the unpaid balance. At July 31, 2003, the Company owed approximately \$81,000 of salary to its CEO.

(6) Note Payable - Convertible Note

In April 2001, the Company entered into convertible notes payable with certain related and unrelated parties in the aggregate amount of \$366,993. The notes were due within ninety (90) days unless the lenders elect to exercise an option to convert the note into the Company's Common Stock, par value \$.001 per share at a conversion price of \$0.90 per share (the estimated fair market value of the stock based on the average of the high and low trade prices of the Company's Common Stock for the ten (10) trading days preceding the loan date). In addition, upon conversion, the lender would receive a three-year warrant for each share of converted Common Stock at an exercise price of \$2.50 per share that will expire on July 7, 2004. The estimated value of the warrants of \$133,793, using the Black-Scholes options-pricing model, was recorded as interest expense over the ninety day note term. In July 2001, an aggregate of \$297,000 note payables were converted which resulted in the issuance of 330,000 shares of the Company's Common Stock. In addition, upon conversion, the Company issued the agreed three-year warrants to purchase an aggregate of 330,000 shares of Common Stock at an exercise price of \$2.50 per share. An aggregate balance of the convertible notes in the amount of \$69,993 was renewed for one hundred twenty (120) days for the same conversion price of \$0.90 per share. In addition, upon conversion, the lender would receive a five-year warrant for each share of converted Common Stock at an exercise

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price of \$1.50 per share. The estimated value of the warrants of \$45,000, using the Black-Scholes options-pricing model, was treated as a debt discount which accretes as interest expense over the one hundred twenty day note term through October 31, 2001. In October 2001, an aggregate of \$64,993 notes payable were converted which resulted in the issuance of 72,214 shares of the Company's Common Stock. In addition, upon conversion, the Company issued the agreed five-year warrants to purchase an aggregate of 72,214 shares of Common Stock at an exercise price of \$1.50 per share. Also, in October 2001, the Company's Board of Directors approved the change in the exercise price of the 330,000 warrants issued to related parties upon conversion of notes from \$2.50 per share to \$1.50 per share and changed the expiration date to July 7, 2006, to conform with the private placements to unrelated parties.

(7) Leases

The Company leased its facility under a five-year operating lease which expired on December 31, 2001. The Company has been leasing the property on a month-to-month basis. Rent expense charged to operations was \$136,000, \$136,000, and \$136,000 in 2003, 2002 and 2001, respectively.

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ALFACELL CORPORATION (A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

(8) Stockholders' Equity

On September 1, 1981, the Company issued 712,500 shares of Common Stock (1,068,750 shares adjusted for the stock split on September 8, 1982) to officers and stockholders in exchange for equipment, research and development services, stock registration costs, reimbursement of expenses and other miscellaneous services. The Common Stock issued for services was recorded at the estimated fair value of services rendered based upon the Board of Directors' determination and ratification of the value of services. Equipment received in exchange for Common Stock was recorded at the transferor's cost. Common stock issued for reimbursement of expenses was recorded based upon expenses incurred. All values assigned for expenses and services rendered have been charged to operations except for stock registration costs which were charged against proceeds.

On July 30, 1982, the Company sold 82,143 shares of Common Stock (123,214 shares adjusted to reflect the stock split on September 8, 1982) to a private investor at a price of \$1.40 per share, resulting in net proceeds to the Company of approximately \$108,500.

On September 8, 1982, the Company declared a 3-for-2 stock split. Shares previously issued by the Company have been restated in accordance with the stock split.

On September 8, 1982, the Company issued 15,000 shares of Common Stock to an officer and stockholder in exchange for equipment. The equipment received in exchange for the Common Stock was recorded at the transferor's cost.

On November 1, 1982 and January 3, 1983, the Company sold 28,125 and 16,071 shares of Common Stock, respectively, to private investors at \$.93 per share, resulting in net proceeds to the Company of approximately

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\$41,250.

On January 17, 1983, the Company sold 660,000 shares of its Common Stock and 330,000 Common Stock purchase warrants in a public offering at a price of \$2.50 per share, resulting in net proceeds to the Company of approximately \$1,308,446. The warrants were to expire 12 months after issuance; however, the Company extended the expiration date to July 16, 1984. During the fiscal years ended July 31, 1983 and 1984, the net proceeds to the Company from the exercise of the warrants amounted to \$934,000. Each Common Stock purchase warrant was not detachable from its Common Stock or exercisable until six months after the issuance date of January 17, 1983. Each warrant entitled the holder to purchase one share of Common Stock at an exercise price of \$3.00 after six months and prior to nine months after issuance. The exercise price increased to \$3.50 after nine months and prior to 12 months after issuance.

In connection with the public offering, the Company sold 60,000 five-year purchase warrants to the underwriters at a price of \$.001 per warrant. Each warrant entitled the holder to purchase one share of Common Stock at an exercise price of \$3.00. Pursuant to the antidilution provisions of the warrants, the underwriters received warrants to purchase 67,415 shares at an exercise price of \$2.67 per share. As of July 31, 1986, all such warrants were exercised and the Company received proceeds of approximately \$180,000.

On February 22, 1984, the Company filed a registration statement with the Securities and Exchange Commission for the issuance of two series of new warrants, each to purchase an aggregate of 330,000 shares (hereinafter referred to as one-year warrants and two-year warrants). The one-year warrants had an exercise price of \$6.50 per share and expired July 17, 1985. The two-year warrants had an exercise price of \$10.00 per share and were to expire July 17, 1986. However, the Company extended the expiration date to August 31, 1987. The one-year warrants and two-year warrants were issued as of July 17, 1984 on a one-for-one basis to those public offering warrant holders who exercised their original warrants, with the right to oversubscribe to any of the warrants not exercised. During the fiscal years ended July 31, 1985, 1986, 1987 and 1988, the Company received net proceeds of approximately \$2,471,000 as a result of the exercise of the warrants.

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

(8) Stockholders' Equity, (Continued)

On January 2, 1987, the Company issued 250,000 shares of Common Stock to officers and stockholders, including the President and Chief Executive Officer, in recognition of services performed for the Company. The fair value of such shares was recorded as compensation expense.

On February 3, 1987, the Company sold 5,000 shares of Common Stock to a private investor for \$5.00 per share, resulting in net proceeds to the Company of approximately \$25,000.

On September 1, 1987, the Board of Directors approved new wage contracts for three officers. The contracts provided for the issuance of 700,000

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shares of Common Stock as an inducement for signing. The fair value of these shares was recorded as deferred compensation and was amortized over the term of the employment agreements. The contracts also provided for the issuance of 1,500,000 shares of Common Stock in 750,000 increments upon the occurrence of certain events. These shares were issued during the fiscal years ended July 31, 1989 and 1990 and the fair value of such shares was recorded as deferred compensation and was amortized over the remaining term of the employment agreements. The contracts also provided for five-year options to purchase 750,000 shares of Common Stock at \$3.00 per share; options for the purchase of 170,000 shares were exercised on June 16, 1988 and the remaining options for the purchase of 580,000 shares expired on September 2, 1992.

During the fiscal year ended July 31, 1988, the Company issued 206,429 shares of Common Stock for payment of legal and consulting services. The fair value of such shares was charged to operations.

During the fiscal year ended July 31, 1988, the Company issued 12,500 shares of Common Stock in connection with the settlement of certain litigation. The fair value of these shares was charged to operations.

During the fiscal year ended July 31, 1988, the Company sold 61,073 shares of Common Stock to private investors at \$2.92 per share resulting in net proceeds to the Company of approximately \$178,133.

On September 21, 1988, the Company entered into a stipulation of settlement arising from a lawsuit wherein it agreed to pay a total of \$250,000 in 12 monthly installments. Under the agreement, the Company authorized the issuance on September 7, 1988 and October 18, 1988 of 85,000 and 50,000 shares, respectively, to an escrow account to secure payment of the \$250,000 due under the stipulation of settlement. During the fiscal year ended July 31, 1989, the Company issued and sold the 135,000 shares of Common Stock for \$1,074,838. On February 14, 1989, the Board of Directors authorized the issuance of an additional 50,000 shares. During the year ended July 31, 1990, the shares were sold for \$351,117. The proceeds from the above transactions were used to pay the settlement and related legal costs, reduce loans from and interest due to the Company's Chief Executive Officer, and for working capital.

During the fiscal year ended July 31, 1989, the Company sold 105,840 shares of Common Stock to private investors at \$3.97 per share resulting in net proceeds to the Company of approximately \$420,000.

During the fiscal year ended July 31, 1990, the Company issued 52,463 shares of Common Stock for payment of legal and consulting services. The fair value of the Common Stock was charged to operations.

During the fiscal year ended July 31, 1990, the Company issued 50,000 shares of Common Stock in connection with the settlement of certain litigation. The fair value of the Common Stock was charged to operations.

During the fiscal year ended July 31, 1990, the Company sold 89,480 shares of Common Stock to private investors at \$3.97 per share resulting in net proceeds to the Company of approximately \$355,080.

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NOTES TO FINANCIAL STATEMENTS, Continued

(8) Stockholders' Equity, (Continued)

During the fiscal year ended July 31, 1991, the Company issued 87,000 shares of Common Stock for payment of legal and consulting services. The fair value of the Common Stock was charged to operations.

During the fiscal year ended July 31, 1992, the Company sold 70,731 shares of Common Stock to private investors at \$2.75 to \$3.50 per share resulting in net proceeds to the Company of approximately \$219,900.

During the fiscal year ended July 31, 1992, the Company issued 45,734 shares of Common Stock as payment for services rendered to the Company. The fair value of the Common Stock was charged to operations.

During the fiscal years ended July 31, 1992 and 1990, 94,000 and 50,000 shares of Common Stock, respectively, were issued to the Company's Chief Executive Officer upon the conversion of outstanding debentures.

During the fiscal year ended July 31, 1993, the Company sold 352,667 shares of Common Stock to private investors at prices ranging from \$2.00 to \$3.00 per share resulting in net proceeds to the Company of approximately \$735,500. In addition, the private investors were granted options to purchase Common Stock totaling 587,167 shares at prices ranging from \$3.00 to \$7.00. During the fiscal years ended July 31, 1995 and 1996, 322,500 and 228,833 options expired, respectively. A total of 42,167 options due to expire on July 31, 1995 were extended to July 31, 1996 and their exercise price was reduced to \$2.50. During the fiscal year ended July 31, 1996, 35,834 options were exercised resulting in net proceeds to the Company of approximately \$89,600.

During the fiscal year ended July 31, 1993, the Company issued 54,600 shares of Common Stock as payment for legal and other services performed for the Company. The fair value of 49,600 shares was charged to operations. The remaining 5,000 shares were recorded as deferred compensation and were amortized over a one-year period, beginning in February 1993, in accordance with the agreement entered into with the recipient.

During the fiscal year ended July 31, 1994, the Company issued 7,000 shares of Common Stock as payment for services performed for the Company. The fair value of the Common Stock was charged to operations.

During the fiscal year ended July 31, 1994, the Company sold 25,000 shares of Common Stock to a private investor at \$2.00 per share resulting in net proceeds to the Company of \$50,000. In addition, the private investor was granted options to purchase Common Stock totaling 25,000 shares at \$4.00 per common share. These options were exercised in September 1996 resulting in net proceeds to the Company of \$100,000.

During the fiscal year ended July 31, 1994, the Company sold 800,000 shares of Common Stock to private investors at \$2.50 per share resulting in net proceeds to the Company of \$1,865,791. In addition, the private investors were granted warrants to purchase Common Stock totaling 800,000 shares at \$5.00 per common share. Warrants for the purchase of 147,450 shares were exercised during fiscal 1997 resulting in net proceeds to the Company of \$737,250. The remaining 652,550 warrants expired during fiscal 1997.

During the fiscal year ended July 31, 1994, 400,000 shares of Common Stock were issued to the Company's Chief Executive Officer upon the conversion

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of outstanding debentures.

During the fiscal year ended July 31, 1994, 25,400 shares of Common Stock were issued upon the conversion of other outstanding debentures.

In September 1994, the Company completed a private placement resulting in the issuance of 288,506 shares of Common Stock and three-year warrants to purchase 288,506 shares of Common Stock at an exercise

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ALFACELL CORPORATION (A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

(8) Stockholders' Equity, (Continued)

price of \$5.50 per share. The warrants expired during fiscal 1998. The Common Stock and warrants were sold in units consisting of 20,000 shares of Common Stock and warrants to purchase 20,000 shares of Common Stock. The price per unit was \$50,000. The Company received proceeds of approximately \$545,000, net of costs associated with the placement of approximately \$55,000 and the conversion of certain debt by creditors of \$121,265 into equivalent private placement units of 17,600 shares for conversion of short-term borrowings and 30,906 shares issued for services rendered. In October 1994, an additional two units at \$50,000 per unit were sold to a private investor under the same terms as the September 1994 private placement resulting in the issuance of 40,000 shares of Common Stock and warrants to purchase 40,000 shares of Common Stock. The warrants expired during fiscal 1998.

During the fiscal year ended July 31, 1995, 185,000 shares of Common Stock were issued upon the exercise of stock options by unrelated parties resulting in net proceeds to the Company of \$437,200. The exercise prices of the options ranged from \$2.27 to \$2.50, which had been reduced from \$3.50 and \$5.00, respectively, during fiscal 1995.

During the fiscal year ended July 31, 1995, the Company sold 681,000 shares of Common Stock to private investors resulting in net proceeds to the Company of approximately \$1,379,000. The shares were sold at prices ranging from \$2.00 to \$2.25.

During the fiscal year ended July 31, 1995, the Company sold 139,080 shares of Common Stock and 47,405 three-year warrants to purchase shares of Common Stock at an exercise price of \$4.00 per share to private investors. The stock and warrants were sold at prices ranging from \$2.25 to \$2.73 per share and resulted in net proceeds to the Company of \$343,808, of which \$4,800 was for services rendered. The common shares were issued to the investors subsequent to July 31, 1995.

On August 4, 1995, the Company issued 6,060 shares of Common Stock as payment for services rendered to the Company. The fair value of the Common Stock was charged to operations.

On September 29, 1995, the Company completed a private placement resulting in the issuance of 1,925,616 shares of Common Stock and three-year warrants to purchase an aggregate of 55,945 shares of Common Stock at an exercise price of \$4.00 per share. Of these shares 1,935 were issued for services rendered to the Company. The Common Stock was sold alone at per

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share prices ranging from \$2.00 to \$3.70, and in combination with warrants at per unit prices ranging from \$4.96 to \$10.92, which related to the number of warrants contained in the unit. The Company received proceeds of approximately \$4.1 million, including \$1,723,000 for approximately 820,000 shares received during the fiscal year ended July 31, 1995. The warrants expired in October 1998.

As consideration for the extension of the Company's term loan agreement with its bank, the Company granted the bank a warrant to purchase 10,000 shares of Common Stock at an exercise price of \$4.19. The warrants were issued as of October 1, 1995 and expired on August 31, 1997.

In June 1996, the Company sold in a private placement 1,515,330 shares of Common Stock and three-year warrants to purchase 313,800 shares of Common Stock at an exercise price of \$7.50 per share. Of these shares, 12,000 were issued for services rendered to the Company. The Common Stock was sold alone at a per share price of \$3.70, in combination with warrants at a per unit price of \$12.52 and warrants were sold alone at a per warrant price of \$1.42. Each unit consisted of three shares of Common Stock and one warrant. The Company received proceeds of approximately \$5.7 million. The warrants expired during the fiscal 2000.

In June 1996, the Company issued 10,000 five-year stock options as payment for services rendered. The options vested immediately and have an exercise price of \$4.95 per share. The Company recorded research

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ALFACELL CORPORATION (A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) Stockholders' Equity, (Continued)

and development expense of \$28,260 which was the fair value of the stock options on the date of issuance. The options expired during the fiscal year ended July 31, 2001.

During the fiscal year ended July 31, 1996, 207,316 shares of Common Stock were sold from October 1995 to April 1996 at per share prices ranging from \$3.60 to \$4.24 resulting in proceeds of approximately \$808,000.

During the fiscal year ended July 31, 1996, 656,334 stock options were exercised by both related and unrelated parties resulting in net proceeds of approximately \$1.9 million to the Company. Of these shares, 89,634 were issued subsequent to July 31, 1996. The exercise prices of the options ranged from \$2.50 to \$3.87 per share.

In August 1996, the Company issued 10,000 stock options with an exercise price of \$4.69 per share exercisable for five years as payment for services to be rendered. An equal portion of these options vested monthly for one year commencing September 1, 1996. The Company recorded general and administrative expense of \$27,900 which was the fair value of the stock options on the date of issuance. The options expired during the fiscal year ended July 31, 2002.

In March 1997, the Company issued 112,000 shares of Common Stock at \$4.50 per share in a private placement to a single investor resulting in net proceeds of \$504,000 to the Company.

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In May 1997, the Company issued 100,000 stock options to a director with an exercise price of \$5.20 per share as payment for serving as Chairman of the Scientific Advisory Board (the "SAB"). These options will vest as follows provided the director is then serving as Chairman of the SAB at the time of vesting: 10,000 vested immediately, 10,000 after one full calendar year, 10,000 annually for each of the following three years and 50,000 on May 13, 2002. The vesting of the 50,000 options which vest in May 2002 may be accelerated upon the occurrence of the following events: 25,000 options upon the good faith determination by the Company's Board of Directors that a substantive collaborative agreement with a major biopharmaceutical company was a result of Dr. Carter's efforts and 25,000 options upon the good faith determination by the Company's Board of Directors that Dr. Carter made a material contribution towards the approval by the United States Food and Drug Administration of a New Drug Application for the marketing of ONCONASE(R) in the United States. The Company recorded a total research and development expense of \$353,400, which was the fair value on the date of issuance of that portion of the stock options that had vested as of July 31, 2002. Of these options, 20,000 expired as of the fiscal year ended July 31, 2003.

During the fiscal year ended July 31, 1997, 639,500 stock options were exercised by both related and unrelated parties resulting in net proceeds of approximately \$2.6 million to the Company. The exercise prices of the options ranged from \$2.45 to \$4.00 per share.

During the fiscal year ended July 31, 1997, 147,450 warrants were exercised by both related and unrelated parties resulting in net proceeds of approximately \$737,250 to the Company. The exercise price of the warrants was \$5.00 per share.

In October 1997, the Company issued 75,000 stock options to a director with an exercise price of \$3.66 per share as payment for non-board related services to be rendered. These options will vest as follows provided he has been serving continuously on the Company's Board of Directors at the time of vesting: 10,000 vested immediately; 10,000 after one full calendar year; 10,000 annually for each of the following three years; and 25,000 on October 31, 2002. The vesting and exercisability of the 25,000 options, which vest in October 2002 may be accelerated upon the good faith determination of the Company's Board of Directors that a substantive collaborative agreement with a major pharmaceutical/biotechnology company

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) Stockholders' Equity, (Continued)

was a direct result of the director's efforts. A total general and administrative expense of \$185,600 is being amortized over a five-year period, which commenced in October 1997. As of July 31, 2003, the expense was fully amortized and recorded, based upon the fair value of such 75,000 options on the date of issuance, amortized on a straight-line basis over the vesting period of the grant. Of these options, 10,000 expired during the fiscal year ended July 31, 2003.

In October 1997, the Company issued 12,000 five-year stock options to a

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consultant with an exercise price of \$3.91 per share as payment for services to be rendered. An equal portion of these options vest monthly and are to be amortized over a one-year period which commenced in October 1997. In May 1998, the Company terminated the services of the consultant which resulted in the cancellation of 5,000 options. The Company recorded a total research and development expense for the remaining 7,000 options in the amount of \$15,800, based upon the fair value of such options on the date of issuance, amortized on a straight-line basis over the vesting period of the grant. These options expired during the fiscal year ended July 31, 2003.

On December 9, 1997, the stockholders authorized the amendment of the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock, par value \$.001 from 25,000,000 shares to 40,000,000 shares.

On December 9, 1997, the stockholders approved the 1997 Stock Option Plan (the "1997 Plan"). The total number of shares of Common Stock authorized for issuance upon exercise of options granted under the 1997 Plan is 2,000,000. Options are granted at fair market value on the date of the grant and generally are exercisable in 20% increments annually over five years starting one year after the date of grant and terminate five years from their initial exercise date.

On January 23, 1998, the Securities and Exchange Commission (the "SEC") declared effective a registration statement on Form S-3 for the offer and sale by certain stockholders of up to 3,734,541 shares of Common Stock. Of these shares (i) an aggregate of 2,737,480 shares were issued to private placement investors in private placement transactions which were completed during the period from March 1994 through March 1997 (the "Earlier Private Placements"), (ii) an aggregate of 409,745 shares are issuable upon exercise of warrants which were issued to private placement investors in the Earlier Private Placements and (iii) an aggregate of 587,316 shares may be issued, or have been issued, upon exercise of options which were issued to option holders in certain other private transactions. As a result of the delisting of the Company's Common Stock from the Nasdaq SmallCap Market, the Company no longer qualified for the use of a Form S-3 registration statement for this offering when it filed its Annual Report on Form 10-K for the fiscal year ended July 31, 1999 and thus, this registration statement was no longer effective. The Company filed a registration statement on Form S-1 to register these shares, which was declared effective in February 2002.

In February 1998, the Company completed the February 1998 Private Placement primarily to institutional investors which resulted in the issuance of 1,168,575 units at a unit price of \$4.00. Each unit consisted of two (2) shares of the Company's Common Stock, par value \$.001 per share and one (1) three-year warrant to purchase one (1) share of Common Stock at an exercise price of \$2.50 per share. The Company received proceeds of approximately \$4,202,000, net of costs associated with the private placement of approximately \$472,000. The placement agent also received warrants to purchase an additional 116,858 units comprised of the same securities sold to investors at an exercise price of \$4.40 per unit as part of its compensation. In May 2001, the expiration date of these warrants was extended from May 19, 2001 to August 17, 2001. The warrants expired on August 17, 2001.

In March 1998, the Company entered into a conversion agreement with one of its raw material suppliers (the "Supplier") for the conversion of an outstanding payable (the "Conversion Agreement") into 50,000 shares of the Company's Common Stock. Pursuant to the Conversion Agreement, the Company issued

ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) Stockholders' Equity, (Continued)

50,000 shares of Common Stock to the Supplier. The fair value of the Common Stock approximated the outstanding payable amount of \$100,000.

In March 1998, the Company issued 75,000 stock options to a director with an exercise price of \$2.80 per share as payment for non-board related services to be rendered. These options will vest as follows provided he has been serving continuously on the Company's Board of Directors at the time of vesting: 10,000 vested immediately; 10,000 after one full calendar year; 10,000 annually for each of the following three years; and 25,000 on March 24, 2003. The vesting and exercisability of the 25,000 options which vest in March 2003 may be accelerated upon the good faith determination of the Company's Board of Directors that a substantive collaborative agreement and licensing or financing arrangement with a major pharmaceutical/biotechnology company was a direct result of the director's efforts. A total general and administrative expense of \$138,100 is being amortized over a five-year period which commenced in March 1998. As of July 31, 2003, the expense was fully amortized and recorded, based upon the fair value of such 75,000 options on the date of issuance, amortized on a straight-line basis over the vesting period of the grant. Of these options, 10,000 expired during the fiscal year ended July 31, 2003.

On April 20, 1998 the SEC declared effective a registration statement on Form S-3 for the offer and sale by certain stockholders of up to 3,918,299 shares of Common Stock. Of these shares (i) an aggregate of 2,337,150 shares of Common Stock were issued to the private placement investors in the February 1998 Private Placement, (ii) an aggregate of 1,168,575 shares may be issued upon exercise of the Warrants which were issued to the private placement investors in the February 1998 Private Placement, (iii) 350,574 shares may be issued upon the exercise of the Placement Agent Warrant which was issued to the placement agent in the February 1998 Private Placement and the Warrants issuable upon exercise of the Placement Agent Warrant, (iv) 50,000 shares of Common Stock were issued to a Supplier in connection with conversion of an outstanding accounts payable, and (v) 12,000 shares may be issued upon the exercise of options which were issued as payment for services to be rendered. As a result of the delisting of the Company's Common Stock from the Nasdaq SmallCap Market, the Company no longer qualified for the use of a Form S-3 registration statement for this offering when it filed its Annual Report on Form 10-K for the fiscal year ended July 31, 1999 and thus, this registration statement was no longer effective. The Company filed a registration statement on Form S-1 to register these shares, which was declared effective in February 2002.

During the fiscal year ended July 31, 1998, the Company issued 833 three-year stock options as payment for services rendered in August 1997. The options vested thirty days from the issuance date and have an exercise price of \$4.47 per share. The total general and administrative expense recorded for these options was \$1,700, based upon the fair value of such options on the date of issuance. These options expired in August 2000.

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During the fiscal year ended July 31, 1998, the Company issued 15,000 three-year stock options with an exercise price of \$4.15 per share as payment for services to be rendered. An equal portion of these options vest monthly and a total general and administrative expense of \$30,000 is being amortized over a one-year period which commenced September 1997. The Company also issued 5,000 three-year stock options with an exercise price of \$4.15 per share as payment for services to be rendered. Of these options, 833 vested monthly for five months commencing September 30, 1997 and 835 vested on the last day of the sixth month. Total general and administrative expense of \$9,700 was amortized over a six-month period which commenced September 1997. As of July 31, 1998, the Company recorded general and administrative expense of \$37,100, based upon the fair value of the 20,000 stock options on the date of the issuance, amortized on a straight-line basis over the vesting periods of the grants. These options expired three years after it vested.

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ALFACELL CORPORATION (A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) Stockholders' Equity, (Continued)

During the fiscal year ended July 31, 1998, 4,950 shares of Common Stock were issued upon the exercise of warrants by unrelated parties resulting in net proceeds of approximately \$11,100 to the Company. The exercise prices of the warrants ranged from \$2.20 to \$2.50 per share.

On October 1, 1998 (the "Effective Date"), the Company entered into an agreement with a consultant (the "Agreement"), resulting in the issuance of 200,000 five-year stock options with an exercise price of \$1.00 per share as payment for services to be rendered. These options will vest as follows: an aggregate of 20,000 shall vest on October 1, 1999 or upon signing of the first corporate partnering deal, whichever shall occur first; an aggregate of 2,500 of such options shall vest on the last day of each month over the first twelve months after the Effective Date of the Agreement; the remaining 150,000 options will vest on the third anniversary of the Effective Date of the Agreement provided that the consultant is still providing consulting services to the Company under the Agreement at that time. The vesting of such remaining options shall be accelerated as follows: 50,000 of such options or the remainder of the unvested options, whichever is less, shall vest upon the signing of each corporate partnering deal in which the total consideration provided in the Agreement is less than \$5,000,000; 100,000 of such options or the remainder of the unvested options, whichever is less, shall vest upon the signing of each corporate partnering deal in which the total consideration provided in the Agreement is greater than \$5,000,000 but less than \$10,000,000; 200,000 of such options or the remainder of the unvested options, whichever is less, shall vest upon the signing of each corporate partnering deal in which the total consideration provided in the Agreement is greater than \$10,000,000. Should the Company sell a controlling interest in its assets and/or equity at any time after the signature of the Agreement, all options will vest. The Company has recorded approximately \$49,300 of general and administrative expense based upon the fair value of the vested options through July 31, 2000. Additional expense will be recorded in subsequent periods through October 1, 2001 as the remainder of the options vest. During the fiscal year ended July 31 2000, the Agreement was terminated which resulted in the cancellation of 150,000

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options. The remaining 50,000 options were exercised in September 2003, which resulted in gross proceeds of \$50,000 to the Company.

During the fiscal year ended July 31, 1999, the Company issued 5,000 three-year stock options as payment for services rendered. The options vested immediately and have an exercise price of \$1.43 per share. The total general and administrative expense recorded for these options was \$4,200, based upon the fair value of such options on the date of issuance. These options were exercised during the fiscal year ended July 31, 2000, which resulted in gross proceeds of \$7,150 to the Company.

During the fiscal year ended July 31, 1999, the Company issued 40,701 shares of Common Stock for payment of legal services. The fair value of the Common Stock in the amount of \$16,631 was charged to operations.

During the fiscal year ended July 31, 1999, the Company issued 6,000 shares of Common Stock for payment of services rendered. The fair value of the Common Stock in the amount of \$2,460 was charged to operations.

During the fiscal year ended July 31, 2000, the Company issued 174,965 shares of Common Stock for payment of services rendered. The fair value of the Common Stock in the amount of \$92,184 was charged to operations.

During the fiscal year ended July 31, 2000, the Company issued 95,000 shares of Common Stock upon the exercise of stock options by unrelated parties which resulted in gross proceeds of \$45,850 to the Company. The exercise prices of the options ranged from \$0.43 to \$1.43.

During the fiscal year ended July 31, 2000, the Company sold an aggregate of 875,000 shares of Common Stock to private investors at prices ranging from \$0.50 to \$1.00 per share resulting in net proceeds of \$548,300 to the Company. In addition, the private investors were granted warrants to purchase an aggregate of 875,000 shares of Common Stock, inclusive of additional warrants issued so that all investors

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ALFACELL CORPORATION (A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) Stockholders' Equity, (Continued)

in the private placements received substantially the same securities, at per share exercise prices ranging from \$1.03 to \$4.55. Of these warrants, 437,500 expired in May 2003 and the balance will expire in May 2005.

During the fiscal year ended July 31, 2001, 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.

During the fiscal year ended July 31, 2001, the Company sold an aggregate of 863,331 shares of Common Stock to private investors at prices ranging from \$0.90 to \$1.50 per share resulting in net proceeds of \$956,000 to the Company. In addition, the private investors were granted warrants to purchase an aggregate of 696,665 shares of Common Stock at per share exercise prices ranging from \$1.50 to \$3.00. The warrants will expire during the period commencing July 2004 and ending in October 2006.

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During the fiscal year ended July 31, 2001, the Company issued 165,555 shares of Common Stock upon the exercise of stock options by related parties which resulted in gross proceeds of \$83,700 to the Company. The per share exercise prices of the options ranged from \$0.29 to \$0.85.

During the fiscal year ended July 31, 2001, the Company issued 50,000 five-year stock options to a director as payment for non-board related services. 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, using the Black-Scholes options-pricing model, 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 its affiliates.

During the fiscal year ended July 31, 2001, the Company issued 330,000 shares of Common Stock upon the conversion of convertible notes from related parties at \$0.90 per share. In addition, upon conversion, the related parties were granted three-year warrants to purchase an aggregate of 330,000 shares of Common Stock at an exercise price of \$2.50 per share. The estimated value of these warrants in the amount of \$108,900 was recorded by the Company as interest expense during the fiscal year ended July 31, 2001. In October 2001, the board of directors approved a change of the 330,000 warrants from three-year warrants to five-year warrants and the exercise price from \$2.50 per share to \$1.50 per share to conform with the private placements to unrelated parties.

During the fiscal year ended July 31, 2002, the Company issued 72,214 shares of Common Stock upon the conversion of convertible notes from unrelated parties at \$0.90 per share. In addition, upon conversion, the unrelated parties were granted five-year warrants to purchase an aggregate of 72,214 shares of Common Stock at an exercise price of \$1.50 per share. The estimated value of these warrants in the amount of \$32,200 was recorded by the Company as interest expense during the fiscal year ended July 31, 2002.

During the fiscal year ended July 31, 2002, the Company issued 78,340 shares of Common Stock in settlement of accounts payable in the amount of \$64,126. In addition, one of the vendors 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 amount was credited to equity as the value of the Common Stock and warrants.

During the fiscal year ended July 31, 2002, the Company issued an aggregate of 85,221 five-year stock options as payment for services rendered. The options vested immediately and have a per share exercise prices of \$0.75 as to 70,000 stock options and \$0.94 as to 15,221 stock options. The Company recorded an aggregate total of \$40,747 non-cash expenses for these options, based upon the fair value on the date of the 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

(8) Stockholders' Equity, (Continued)

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During the fiscal year ended July 31, 2002, the Company sold an aggregate of 2,622,122 shares of Common Stock to private investors at prices ranging from \$0.35 to \$0.90 per share resulting in net proceeds of \$1,050,000 to the Company. In addition, the private investors were granted warrants to purchase an aggregate of 2,673,422 shares of Common Stock at per share exercise prices ranging from \$0.75 to \$1.50. The warrants will expire during the period commencing August 2006 and ending in June 2007.

During the fiscal year ended July 31, 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 an aggregate of 226,000 shares of Common Stock as of the fiscal year ended July 31, 2003 with an exercise price of \$0.50 per share, resulting in gross proceeds of \$112,500 to the Company. Warrants to purchase an additional 274,000 shares were exercisable as of July 31, 2003 of which 24,000 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. The additional warrants vest contingent upon capital being raised and were to be accounted for as part of the capital transaction. However, Roan Meyers Associates L.P. was not successful in its attempt in raising additional capital. During the fiscal year ended July 31, 2003, the vesting of the 600,000 warrants was amended to vest immediately and the exercise price was amended from \$1.50 to \$0.50 per share due to the price of the Company's Common Stock, which resulted in the issuance of 600,000 shares of Common Stock upon the exercise of warrants. The Company realized gross proceeds of \$300,000 in this capital raising transaction.

During the fiscal year ended July 31, 2002, the Company issued an aggregate of 186,000 shares of Common Stock upon the exercise of warrants by an unrelated party, which resulted in gross proceeds of \$93,000 to the Company.

During the fiscal year ended July 31, 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 value of such option on the date of issuance as estimated by the Black-Scholes options-pricing model.

During the fiscal year ended July 31, 2002, the Company issued a notes payable to an unrelated party in an aggregate amount of \$300,000. The note was due thirty days bearing interest at 8% per annum. In addition, the lender received warrants to purchase 350,000 shares of Common Stock at an exercise price of \$0.60 per share. The total non-cash interest expense recorded for these warrants 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. The notes were either extended for eighteen months

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or the lenders can convert the notes at a conversion price of \$0.40 per share plus a five-year warrant for each share of the Company's Common Stock issued upon conversion at an exercise price of \$1.00 per share.

During the fiscal year ended July 31, 2003, the Company issued an aggregate of 764,000 shares of Common Stock upon the exercise of warrants and stock options by unrelated parties which resulted in gross proceeds of approximately \$378,000 to the Company.

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ALFACELL CORPORATION (A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) Stockholders' Equity, (Continued)

During the fiscal year ended July 31, 2003, the Company issued an aggregate 186,208 shares of Common Stock in settlement of accounts payable in the aggregate amount of \$94,223. In addition, one of the vendors was granted five-year options to purchase 50,000 shares of Common Stock at an exercise price of \$1.25 per share. The Company recorded \$17,581 non-cash research and development expenses for these options, based upon the fair value on the date of the issuance as estimated by the Black-Scholes options-pricing model. The settled accounts payable amount was credited to equity as the value of the Common Stock and options.

During the fiscal year ended July 31, 2003, the Company issued 25,000 five-year stock options to an unrelated party as an incentive for lending the Company an aggregate of \$25,000, which was fully paid as of April 30, 2003. 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. In addition, the Company issued 140,000 five-year stock options for services rendered. These stock options vested immediately and have exercise prices of \$0.84 and \$1.25 per share. The total non-cash charge relating to these options was \$55,437. The total value of these options was based upon the fair value of such options on the date of issuance as estimated by the Black-Scholes options-pricing model.

During the fiscal year ended July 31, 2003, the Company issued 8% convertible notes payable to unrelated parties with principal balances totaling an aggregate of \$915,000. These notes payable are scheduled to mature on various dates from April 2004 through May 2005 and are convertible into the Company's Common Stock at exercise prices ranging from \$0.20 to \$0.50 per share. Additionally, with the issuance of the notes payable, the Company issued to the unrelated parties warrants to purchase an aggregate of 665,000 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 an aggregate of 915,000 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 at a total of \$219,259 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

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additional paid-in capital by \$219,259 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 also increased its additional paid-in capital and debt discount by \$374,960 for beneficial conversion rights issued in connection with the issuances of these notes (see note 4).

During the fiscal year ended July 31, 2003, the Company sold an aggregate of 1,315,000 shares of Common Stock to private investors at prices ranging from \$0.20 to \$0.73 per share resulting in net proceeds of \$653,627 to the Company. In addition, the private investors were granted warrants to purchase an aggregate of 1,315,000 shares of Common Stock at per share exercise prices ranging from \$1.00 to \$1.50. The warrants will expire during the period commencing January 2008 and ending in October 2008.

(9) Common Stock Warrants

During the fiscal years 1988 and 1991, the Board of Directors granted stock purchase warrants to acquire a maximum of 400,000 shares of Common Stock at \$5.00 per share which were not exercised and have since expired.

The following table summarizes the activity of Common Stock warrants issued in connection with the Private Placements completed in fiscal years 1994 through 2003:

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) Common Stock Warrants, (Continued)

	Warrants	Exercise Price	
Sold in March 1994 Private Placement	800,000	\$5.00	3/
Outstanding at July 31, 1994	800,000	5.00	3/
Sold in September 1994 Private Placement	288,506	5.50	12
Sold in October 1994 Private Placement	40,000	5.50	
Sold in September 1995 Private Placement	47,405	4.00	
Outstanding and exercisable at July 31, 1995	1,175,911	4.00 - 5.50	3/
Issued to bank in connection with an amendment to the Company's term loan	10,000	4.19	
Sold in September 1995 Private Placement	8,540	4.00	
Sold in June 1996 Private Placement	313,800	7.50	8/
Outstanding and exercisable at July 31, 1996	1,508,251	4.00 - 7.50	3/
Exercised	(147,450)	5.00	3/

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Expired	(652,550)	5.00	3/

Outstanding and exercisable at July 31, 1997	708,251	4.00 - 7.50	12
Sold in February 1998 Private Placement	1,168,575	2.50	
Issued to the Placement Agent in connection with the February 1998 Private placement (see note 8)	350,574	2.20 - 2.50	
Exercised	(4,950)	2.20 - 2.50	
Expired	(338,506)	4.19 - 5.50	8/

Outstanding and exercisable at July 31, 1998	1,883,944	2.20 - 7.50	10
Expired	(55,945)	4.00	
Sold in February 2000 Private Placement	875,000	1.03 - 4.55	5/
Expired	(313,800)	7.50	8/

Outstanding and exercisable at July 31, 2000	2,389,199	1.03 - 4.55	5/
Sold in various private placements	696,665	1.50 - 3.00	7/
Issued to related parties upon conversion of note payable	330,000	1.50	

Outstanding and exercisable at July 31, 2001	3,415,864	1.03 - 4.55	8/
Expired	(1,514,199)	2.20 - 2.50	
Sold in various private placements	2,673,422	0.75 - 1.50	11
Issued to vendor upon settlement of accounts payable	55,556	1.50	

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) Common Stock Warrants, (Continued)

	Warrants	Exercise Price
	-----	-----
Issued to unrelated party for advisory services	1,500,000	0.50 - 1.50
Exercised	(186,000)	0.50
Issued to unrelated parties upon conversion of notes payable	72,214	1.50
Issued to unrelated parties in connection with notes payable	300,000	0.60

Outstanding and exercisable at July 31, 2002	6,316,857	0.50 - 4.55
Expired	(437,500)	1.03 - 3.25

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Sold in various private placements	1,315,000	1.00 - 1.50
Exercised	(640,000)	0.50
Issued to unrelated parties in connection with notes payable	665,000	0.60

Outstanding and exercisable at July 31, 2003	7,219,357	\$ 0.50 - 4.55
	=====	=====

(10) Stock Options

1993 Stock Option Plan

The Company's stockholders approved the 1993 stock option plan totaling 3,000,000 shares, which provide that options may be granted to employees, directors and consultants. Options are granted at market value on the date of the grant and generally are exercisable in 20% increments annually over five years starting one year after the date of grant and terminate five years from their initial exercise date. Our plan will expire on November 11, 2003 except to the extent there are outstanding options.

1997 Stock Option Plan

The Company's stockholders approved the 1997 stock option plan totaling 2,000,000 shares, which provide that options may be granted to employees, directors and consultants. Options are granted at market value on the date of the grant and generally are exercisable in 20% increments annually over five years starting one year after the date of grant and terminate five years from their initial exercise date.

The following table summarizes stock option activity for the period August 1, 1994 to July 31, 2003:

	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price Per S
	-----	-----	-----
Balance August 1, 1994	1,926,841	5,935,337	\$ 3.76
Granted	(818,850)	818,850	2.60
Exercised	--	(185,000)	2.36
Canceled	--	(1,897,500)	4.30
	-----	-----	
Balance July 31, 1995	1,107,991	4,671,687	3.39
Granted	(296,205)	296,205	3.99
Exercised	--	(656,334)	2.92
Canceled	6,500	(235,333)	4.89
	-----	-----	
Balance July 31, 1996	818,286	4,076,225	3.43

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(10) Stock Options, (Continued)

	Shares Available for Grant -----	Number of Shares -----	Weighted Av Exercise Price -----
1997 Plan	2,000,000	--	--
Granted	(932,500)	932,500	4.90
Exercised	--	(639,500)	3.82
Canceled	484,845	(484,845)	4.70
	-----	-----	
Balance July 31, 1997	2,370,631	3,884,380	3.56
Granted	(234,333)	234,333	3.31
Canceled	91,100	(91,100)	3.81
	-----	-----	
Balance July 31, 1998	2,227,398	4,027,613	3.54
Granted	(595,000)	595,000	0.62
Canceled	443,934	(555,737)	3.97
	-----	-----	
Balance July 31, 1999	2,076,332	4,066,876	3.05
Granted	(827,000)	827,000	0.52
Exercised	--	(95,000)	0.48
Canceled	638,395	(1,031,880)	2.73
	-----	-----	
Balance July 31, 2000	1,887,727	3,766,996	2.65
Granted	(447,000)	447,000	0.85
Exercised	--	(165,555)	0.51
Canceled	774,315	(1,018,557)	3.42
	-----	-----	
Balance July 31, 2001	2,215,042	3,029,884	2.24
Granted	(544,221)	544,221	0.69
Exercised	--	--	--
Canceled	655,840	(900,081)	2.31
	-----	-----	
Balance July 31, 2002	2,326,661	2,674,024	1.90
Granted	(630,000)	630,000	0.50
Exercised	--	(124,000)	0.47
Canceled	485,118	(736,359)	3.09
	-----	-----	
Balance July 31, 2003	2,181,779	2,443,665	1.26
	=====	=====	=====

The stock options granted in fiscal year ended July 31, 2000 included an aggregate total of 75,000 stock options issued to the Company's outside Board of Directors and an aggregate total of 350,000 stock options issued to the employees of the Company, which will vest and become exercisable upon certain milestones, or these options will terminate, and the employees must be actively employed by the Company through the date of the achievement of the milestones. Compensation expense, if any, will be determined based on the Company's stock price on the vesting date relative to the options exercise price. No compensation expense was issued in 2001 and 2002. An aggregate 50,000 options issued to the Company's outside Board of Directors were exercised during the fiscal year 2001. The 350,000 stock options issued to the employees expired during the fiscal year ended July 31, 2002. The options outstanding at July 31, 2003 will expire between August 1, 2002 and October 4, 2010.

The weighted-average fair value per option at the date of grant for options granted during the fiscal years 2003, 2002 and 2001 were \$0.21,

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\$0.40 and \$0.74, respectively. The fair value was estimated using the Black-Scholes options pricing model based on the following assumptions:

	2003 ----	2002 ----
Expected dividend yield	0%	0%
Risk-free interest rate	2.00%	5.50%
Expected stock price volatility	77.79%	88.71%
Expected term until exercise (years)	5.50	5.60

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) Stock Options, (Continued)

The following table summarizes information concerning options outstanding at July 31, 2003:

Options Outstanding Options Exercisable

Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Term (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
\$ 0.00 - 1.99	1,968,666	4.06	\$ 0.64	1,320,066	\$
2.00 - 2.99	85,000	3.64	2.72	65,000	
3.00 - 3.99	206,500	1.25	3.27	206,500	
4.00 - 4.99	73,500	1.43	4.58	73,500	
5.00 - 5.99	110,000	2.55	5.17	110,000	
=====	-----	=====	=====	-----	=====
	2,443,666			1,775,066	
	=====			=====	

Stock option activity prior to adoption of SFAS No. 123 is as follows:

1981 Non-Qualified Stock Option Plan

In 1981, the Board of Directors adopted a non-qualified stock option plan and had reserved 300,000 shares for issuance to key employees or consultants. Options were nontransferable and expired if not exercised within five years. Option grants of 60,000 shares expired unexercised by July 31, 1991.

Non-Qualified Stock Options

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The Board of Directors issued non-qualified stock options which were not part of the 1981 non-qualified stock option plan or the 1989 Stock Plan as follows:

	Shares -----	Price Range -----
Granted	1,782,000	\$ 3.00-3.87
Exercised	(276,989)	3.00-3.50
Canceled	(106,000)	3.00-3.50
Expired	(649,011)	3.00-3.50

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(10) Stock Options, (Continued)

	Shares -----	Price Range -----
Granted pursuant to conversion of certain liabilities:		
Related party	1,324,014	\$ 3.20
Unrelated party	73,804	3.20
Repurchased stock options	(102,807)	3.20

Balance at July 31, 1994	2,045,011	\$ 3.20-3.87
	=====	=====

In connection with certain private placements, the Board of Directors had included in the agreements, options to purchase additional shares of the Company's Common Stock as follows:

	Shares -----	Price Range -----
Granted (42,167 options were repriced and extended)	894,887	\$ 2.50-7.00
Exercised	(81,000)	3.97-6.50
Expired	(201,720)	3.97-6.50

Balance at July 31, 1994	612,167	\$ 2.50-7.00
	=====	=====

All of the above options expired as of July 31, 2001.

1989 Stock Plan

On February 14, 1989, the Company adopted the Alfacell Corporation 1989

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Stock Plan (the "1989 Stock Plan"), pursuant to which the Board of Directors could issue awards, options and grants. The maximum number of shares of Common Stock that could have been issued pursuant to the option plan was 2,000,000.

No more options are being granted pursuant to this plan. The per share option exercise price was determined by the Board of Directors. All options and shares issued upon exercise were nontransferable and forfeitable in the event employment was terminated within two years of the date of hire. In the event the option was exercised and said shares were forfeited, the Company would return to the optionee the lesser of the current market value of the securities or the exercise price paid.

The stock option activity is as follows:

	Shares -----	Price Range -----
Granted, February 14, 1989	3,460,000	\$ 3.50-5.00
Options issued in connection with share purchase	36,365	2.75
Expired	(1,911,365)	2.75-5.00
Canceled	(10,000)	5.00

Balance at July 31, 1994	1,575,000	\$ 3.50-5.00
	=====	=====

As of fiscal year ended July 31, 1994, 1,703,159 options were granted under the 1993 stock option plan.

(11) Stock Grant and Compensation Plans

The Company had adopted a stock grant program effective September 1, 1981, and pursuant to said plan, had reserved 375,000 shares of its Common Stock for issuance to key employees. The stock grant program was superseded by the 1989 Stock Plan and no further grants will be given pursuant to the grant plan. The following stock transactions occurred under the Company's stock grant program:

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) Stock Grant and Compensation Plans, (Continued)

Year ended July 31, -----	Shares -----	Fair Value -----	Amount of Compensation -----
1983	20,000	\$ 5.50	\$110,000
1984	19,750	5.125	101,219
1985	48,332	5.125-15.00	478,105
1986	11,250	5.125-15.00	107,032
1988	19,000	3.50	6,500

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On January 26, 1984, the Company adopted a stock bonus plan for directors and consultants. The plan was amended on October 6, 1986 to reserve 500,000 shares for issuance under the plan and to clarify a requirement that stock issued under the Plan could not be transferred until three years after the date of the grant. The stock bonus plan for directors and consultants was superseded by the 1989 Stock Plan and no further grants will be given pursuant to the stock bonus plan for directors and consultants. The following stock transactions occurred under the Company's stock bonus plan:

Year ended July 31, -----	Shares -----	Fair Value -----	Amount of Compensation -----
1984	130,250	\$ 2.50-3.88	\$ 385,917
1985	99,163	3.50-15.00	879,478
1985	(42,500)	2.50	(105,825) *
1986	15,394	9.65-15.00	215,400
1987	5,000	15.00	75,000

* Shares granted in 1984 were renegotiated in 1985 and canceled as a result of the recipient's termination.

1989 Stock Plan

Under the 1989 Stock Plan, one million shares of the Company's Common Stock were reserved for issuance as awards to employees. The 1989 Stock Plan also provides for the granting of options to purchase Common Stock of the Company (see note 10). In addition, the 1989 Stock Plan provided for the issuance of 1,000,000 shares of the Company's Common Stock as grants. To be eligible for a grant, grantees must have made substantial contributions and shown loyal dedication to the Company.

Awards and grants were authorized under the 1989 Stock Plan during the following fiscal years:

Year ended July 31, -----	Shares -----	Fair Value -----	Amount of Compensation -----
1989	30,000	\$5.00	\$150,000
1990	56,000	6.00	336,000
1991	119,000	4.00	476,000
1992	104,000	2.75	286,000

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) Stock Grant and Compensation Plans, (Continued)

Year ended July 31,	Shares	Fair Value	Amount of Compensation
------------------------	--------	------------	---------------------------

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Year	Stock Awards	Per Share	Total
1993	117,000	\$2.00	\$234,000
1994	5,000	\$3.00	\$ 15,000

Compensation expense is recorded for the fair value of all stock awards and grants over the vesting period. The 1994 stock award was immediately vested. There were no stock awards in fiscal 2001, 2000 or 1999.

(12) Income Taxes

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109). Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect for all years in which the temporary differences are expected to reverse.

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 had \$1,373,000 total available tax benefits of which \$273,000 was allocated to be sold between July 1, 2002 to June 30, 2003. In December 2002, the Company received \$231,000 from the sale of an aggregate of \$273,000 tax benefits which was recognized as a tax benefit for the fiscal year 2003. In December 2001 and 2000, the Company received \$354,000 and \$451,000 from the sale of its allocated tax benefits, which was recognized as tax benefits for the fiscal years 2002 and 2001, respectively. The Company will attempt to sell the remaining balance of its tax benefits in the amount of approximately \$1,100,000 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.

At July 31, 2003 and 2002, the tax effects of temporary differences that give rise to the deferred tax assets are as follows:

	2003	2002
	----	----
Deferred tax assets:		
Excess of book over tax depreciation and amortization	\$ 46,605	\$ 71,018
Accrued expenses	392,838	146,843
Federal and state net operating loss carryforwards	14,433,485	14,787,041
Research and experimentation and investment tax credit carryforwards	1,185,883	1,259,070
	-----	-----
Total gross deferred tax assets	16,058,811	16,263,972
Valuation allowance	(16,058,811)	(16,263,972)
	-----	-----
Net deferred tax assets	\$ --	\$ --
	=====	=====

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The

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tax benefit assumed using the federal statutory tax rate of 34% has been reduced to the actual benefits reflected on the statements of operations due principally to the aforementioned valuation allowance. In July 2003, 2002 and 2001 the valuation allowance decreased by \$205,000, increased by \$178,000 and increased by \$80,000, respectively.

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(12) Income Taxes, (Continued)

At July 31, 2003, the Company has federal net operating loss carryforwards of approximately \$39,600,000 that expire in the years 2004 to 2023. The Company also has research and experimentation tax credit carryforwards of approximately \$1,186,000 that expire in the years 2004 to 2023. Ultimate utilization/availability of such net operating losses and credits may be significantly curtailed if a significant change in ownership occurs in accordance with the provisions of the Tax Reform Act of 1986.

(13) Other Financial Information

Accrued expenses as of July 31, consist of the following:

	2003	2002
	----	----
Payroll and payroll taxes	\$ 884,808	\$ 351,575
Professional fees	38,351	27,000
Clinical trial grants	379,342	374,522
Other	105,477	101,181
	-----	-----
	\$1,407,978	\$ 854,278
	=====	=====

Other current assets as of July 31, consist of the following:

	2003	2002
	----	----
Prepaid insurance	\$ 9,518	\$ 45,450
Other	585	304
	-----	-----
	\$ 10,103	\$ 45,754
	=====	=====

(14) Commitments and Contingencies

On July 23, 1991, the Board of Directors authorized the Company to pay Kuslima Shogen, the Company's CEO, an amount equal to 15% of any gross royalties which may be paid to the Company from any license(s) with respect to the Company's principal product, ONCONASE(R), or any other products derived from amphibian source extract, produced either as a natural, synthesized, and/or genetically engineered drug for which the Company is the owner or co-owner of the patents, or acquires such rights in the future, for a period not to exceed the life of the patents. If the Company manufactures and markets its own drugs, then the Company will pay

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an amount equal to 5% of net sales from any products sold during the life of the patents. On April 16, 2001, this agreement was amended and clarified to provide that Ms. Shogen would receive the 15% royalty payment relating to licensees or the 5% fee relating to sales but not both, unless the Company and the licensee both market the licensed product.

The Company has product liability insurance coverage in the amount of \$3,000,000 for clinical trials in the U.S. Additionally, the Company also maintains product liability insurance in Europe in the amount of DM20,000,000. No product liability claims have been filed against the Company. If a claim arises and the Company is found liable in an amount that significantly exceeds the policy limits, it may have a material adverse effect upon the financial condition of the Company.

Included in accrued expenses as of July 31, 2003, is \$884,807 of unpaid payroll and payroll taxes (see note 18).

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(14) Commitments and Contingencies, (Continued)

Below is a table that presents our contractual obligations and commercial commitments as of July 31, 2003:

	Payments Due by Fiscal Year			
	Total	2004	2005	2006 and Thereafter
Research and development commitments	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Operating lease	30,600	17,500	13,100	-0-
Total contractual cash obligations	\$30,600	\$17,500	\$13,100	\$ -0-

(15) Research and Development Agreement

In October 2002, the Company entered into a research collaboration with Wyeth Pharmaceuticals to co-develop a number of designer drugs such as conjugates and fusion proteins for a variety of indications using the Company's proprietary technology. This collaboration may result in a licensing agreement between the companies however, there is no assurance that such agreement will be reached.

In August 1995, the Company entered into a Cooperative Research and Development Agreement ("CRADA") with the NCI. In accordance with this CRADA, the NCI performed research for the Company on potential uses for its drug technology. During the term of this research and development agreement, which expired in August 1999, the Company was obligated to pay approximately \$5,200 per month to the NCI. In September 1999, this

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research and development agreement was amended to expire in August 2000 and in June 2000 the expiration was extended to expire in August 2001. Both extensions were without additional cost for the Company. Total research and development expenses under this arrangement amounted to \$5,200 for the fiscal year ended July 31, 2000.

(16) 401(K) Savings Plan

Effective October 1, 1998, the Company adopted a 401(K) Savings Plan (the "Plan"). Qualified employees may participate by contributing up to 6% of their gross earnings to the Plan subject to certain Internal Revenue Service restrictions. The Company will match an amount equal to 50% of the first 6% of each participant's contribution. The Company's contribution is subject to a vesting schedule of 0%, 25%, 50%, 75% and 100% for employment of less than one year, one year, two years, three years and four years, respectively, except for existing employees which vesting schedule was based from the date the Plan was adopted. For the fiscal years ended July 31, 2003, 2002 and 2001, the Company's contribution to the Plan amounted to \$24,956, \$25,717 and \$23,826, respectively.

(17) Quarterly Financial Data (Unaudited)

(In thousands, except per share amounts)

	2003						
	First	Second	Third	Fourth	Totals	First	Second
Interest income	\$.1	\$.1	\$ --	\$ 9.7	\$ 9.9	\$ --	\$.1
Other income	30.0	--	--	--	30.0	--	--
Operating loss	(559.4)	(737.4)	(567.7)	(778.4)	(2,642.9)	(731.1)	(697.9)
Net loss (a)	(329.9)	(737.4)	(567.7)	(776.5)	(2,411.5)	(377.4)	(697.9)

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(17) Quarterly Financial Data (Unaudited), (Continued)

	2003						
	First	Second	Third	Fourth	Totals	First	Second
Loss per share							
- basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.02)	\$ (0.04)	\$ (0.10)	\$ (0.02)	\$ (0.03)

(a) Included in the net loss of \$329.9 and \$377.4 for first quarter 2003 and 2002, are tax benefits of \$231.4 and \$353.7, respectively, related to the sale of certain state tax operating loss carryforwards.

(18) Subsequent Events

In August 2003, the Company issued an aggregate of 120,000 shares of Common Stock to private investors resulting in aggregate gross proceeds of \$60,000 to the Company. In addition, the private investors were granted five-year warrants to purchase 120,000 shares of Common Stock at an exercise of price of \$1.25 per share.

From August 2003 through October 14, 2003, the Company issued to unrelated parties, an aggregate of 1,165,773 shares of Common Stock upon the exercise of warrants and stock options at per share exercise prices ranging from \$0.43 to \$1.00. The Company realized aggregate gross proceeds of \$861,225.

In September 2003, the Company issued 1,704,546 shares of Common Stock to an institutional investor resulting in gross proceeds of \$1,500,000 to the Company. In addition, the private investors were granted five-year warrants to purchase 852,273 shares of Common Stock at an exercise price of \$1.50 per share. The Company also issued 38,710 shares of restricted Common Stock to a third party as finder's fee.

As of September 30, 2003 all payroll taxes have been fully paid (see note 14).

In September 2003, the terms of the Company's notes payable were amended such that (i) they are convertible into shares of Series A Preferred Stock rather than Common Stock, and (ii) the warrants to be issued upon the due date of the notes are warrants to purchase shares of Series A Preferred Stock rather than Common Stock. In the event the stockholders approve an increase in the number of shares of Common Stock authorized, the terms of the notes will revert to the original terms to the extent the notes have not been converted.

In September 2003, the Company's Board of Directors designated 200,000 of the 1,000,000 shares of preferred stock as Series A Preferred Stock. 105,666 shares of its Series A Preferred Stock has been reserved for issuance upon the conversion of certain of its outstanding notes.

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ALFACELL CORPORATION
(A Development Stage Company)

BALANCE SHEETS
January 31, 2004 and July 31, 2003

ASSETS

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Current assets:

Cash and cash equivalents	\$ 1,
Other current assets	-----
Total current assets	2,

Property and equipment, net

Loan receivable, related party	-----
Total assets	\$ 2, =====

LIABILITIES AND STOCKHOLDERS' (DEFICIENCY)

Current liabilities:

Current portion of long-term debt, net of debt discount of \$156,476 at January 31, 2004 and \$187,121 at July 31, 2003	\$
Accounts payable	
Accrued expenses	-----
Total current liabilities	2,

Long-term debt, less current portion, net of debt discount of \$20,293 at January 31, 2004 and \$163,687 at July 31, 2003

Total liabilities	----- 2,
-------------------	-------------

Stockholders' (deficiency):

Preferred stock, \$.001 par value	
Authorized and unissued, 1,000,000 shares at January 31, 2004 and July 31, 2003	
Common stock \$.001 par value	
Authorized 100,000,000 shares at January 31, 2004 and 40,000,000 shares at July 31, 2003; Issued and outstanding, 28,958,315 at January 31, 2004 and 25,026,129 shares at July 31, 2003	
Capital in excess of par value	65,
Deficit accumulated during the development stage	(65, -----)
Total stockholders' (deficiency)	----- (

Total liabilities and stockholders' (deficiency)	\$ 2, =====
--	----------------

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, 2004 and 2003,
and the Period from August 24, 1981
(Date of Inception) to January 31, 2004

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(Unaudited)

	Three Months Ended January 31,		Six Months En January 31
	2004	2003	2004
Revenue:			
Sales	\$ --	\$ --	\$ --
Investment income	4,530	120	8,230
Other income	--	--	--
Total revenue	<u>4,530</u>	<u>120</u>	<u>8,230</u>
Costs and expenses:			
Cost of sales	--	--	--
Research and development	674,089	379,866	1,311,286
General and administrative	420,243	152,320	648,188
Interest:			
Related parties, net	--	1,286	--
Others	109,786	204,056	228,401
Total costs and expenses	<u>1,204,118</u>	<u>737,528</u>	<u>2,187,875</u>
Loss before state tax benefit	(1,199,588)	(737,408)	(2,179,645)
State tax benefit	--	--	221,847
Net loss	<u>\$ (1,199,588)</u>	<u>\$ (737,408)</u>	<u>\$ (1,957,798)</u>
Loss per basic common share	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>
Weighted average number of shares outstanding	<u>28,439,372</u>	<u>22,872,958</u>	<u>27,675,584</u>

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, 2004 and 2003,
and the Period from August 24, 1981
(Date of Inception) to January 31, 2004

(Unaudited)

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	Six Months Ended January 31, -----		August 24, 19 (Date of Incept to January 31, 2 -----
	2004 ----	2003 ----	
Cash flows from operating activities:			
Net loss	\$ (1,957,798)	\$ (1,067,323)	\$ (65,932,0
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on sale of marketable securities	--	--	(25,9
Depreciation and amortization	3,414	11,417	1,550,6
Loss on disposal of property and equipment	--	--	18,9
Noncash operating expenses	147,893	14,275	6,265,5
Charge for beneficial conversion rights	--	200,487	
Amortization of debt discount	174,039	7,626	417,4
Amortization of deferred compensation	--	--	11,442,0
Amortization of organization costs	--	--	4,5
Changes in assets and liabilities:			
(Increase) decrease in other current assets	(238,950)	33,656	(308,9
Increase in loan receivable, related party	(6,055)	(2,747)	(52,2
Increase in interest payable, related party	--	--	744,5
(Decrease) increase in accounts payable	(92,846)	(186,294)	1,061,0
Increase in accrued payroll and expenses, related parties	--	--	2,348,1
(Decrease) increase in accrued expenses	(658,520)	341,056	1,290,9
Net cash used in operating activities	----- (2,628,823)	----- (647,847)	----- (41,175,3
Cash flows from investing activities:			
Purchase of marketable equity securities	--	--	(290,4
Proceeds from sale of marketable equity securities	--	--	316,3
Purchase of property and equipment	(2,251)	--	(1,409,0
Patent costs	--	--	(97,8
Net cash used in investing activities	----- (2,251)	----- --	----- (1,480,9

(continued)

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, 2004 and 2003,
and the Period from August 24, 1981
(Date of Inception) to January 31, 2004

(Unaudited)

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	Six Months Ended January 31,	
	----- 2004 ----	----- 2003 ----
Cash flows from financing activities:		
Proceeds from short-term borrowings	\$ --	\$ 25,000
Payment of short-term borrowings	--	(25,000)
(Decrease) increase in loans payable - related party, net	--	(35,761)
Proceeds from bank debt and other long-term debt, net of deferred issuance costs	--	615,000
Reduction of bank debt and long-term debt	(3,943)	(3,965)
Proceeds from issuance of common stock, net	1,527,925	5,693
Proceeds from exercise of stock options and warrants, net	2,626,452	--
Proceeds from issuance of convertible debentures, related party	--	--
Proceeds from issuance of convertible debentures, unrelated party	--	--
	-----	-----
Net cash provided by financing activities	4,150,434	580,967
	-----	-----
Net increase (decrease) in cash and cash equivalents	1,519,360	(66,880)
Cash and cash equivalents at beginning of period	330,137	85,843
	-----	-----
Cash and cash equivalents at end of period	\$1,849,497	\$ 18,963
	=====	=====
Supplemental disclosure of cash flow information - interest paid		
	\$ --	\$ 3,846
	=====	=====
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	\$ 42,729	\$ 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	\$ --	\$ --
	=====	=====
Issuance of common stock for services rendered	\$ --	\$ --
	=====	=====
Issuance of warrants with notes payable	\$ --	\$ 146,086

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, 2004 and its results of operations and cash flows for the three and/or six month periods ended January 31, 2004 and 2003 and the period from August 24, 1981 (date of inception) to January 31, 2004. The results of operations for the six months ended January 31, 2004 are not necessarily indicative of the results to be expected for the full year.

Certain footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the published rules and regulations of the Securities and Exchange Commission. The financial statements in this report should be read in conjunction with the audited financial statements and notes thereto included elsewhere herein for the years ended July 31, 2003, 2002, and 2001.

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 developing new drug products. 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 and has limited liquid resources. The report of the Company's independent public accountants on the Company's July 31, 2003 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 Company has continued to incur losses through January 31, 2004 and has a working capital deficiency as of January 31, 2004. The financial statements at July 31, 2003 and January 31, 2004 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. Through January 31, 2004, 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

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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, 2003 through February 20, 2004, the Company received gross proceeds of approximately \$4,318,000 from long-term and short-term borrowings from unrelated parties, the private placement of Common Stock and warrants and other income. No assurances can be provided that the additional capital will be sufficient to meet the Company's needs.

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS, Continued

(Unaudited)

2. EARNINGS (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 Company's Basic and Diluted per share amounts are the same since the effects of the assumed exercise of stock options and warrants and the conversion of convertible notes are all anti-dilutive. The amount of options and warrants excluded from the calculation was 9,543,637 and 10,139,294 at January 31, 2004 and 2003, respectively. This excludes the potential dilution that could occur upon the conversion of convertible notes into Common Stock.

3. STOCK-BASED COMPENSATION

During the third fiscal quarter of 2003, Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation - Transition and Disclosure - An Amendment of FASB Statement No. 123" became effective for the Company.

The Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method. As the exercise price of all options granted under these plans was equal to the fair market price of the underlying Common Stock on the grant date, no stock-based employee compensation cost is recognized in the condensed statements of operations.

In accordance with SFAS 148 and Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company's pro forma option expense is computed using the Black-Scholes option pricing model. To comply with SFAS 148, the Company is presenting the following table to illustrate the effect on the net loss and loss per share if it had applied the fair value recognition provisions of SFAS 123, as amended, to options granted under the stock-based employee compensation plans. For purposes of this pro forma disclosure, the estimated value of the options is amortized ratably to expense over the options' vesting periods.

Three Months Ended
January 31,

Six Months Ended
January 31,

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	2004 ----	2003 ----	2004 ----	
Net loss				
As reported	\$ (1,199,588)	\$ (737,408)	\$ (1,957,798)	\$ (1,
Stock-based employee compensation expense under fair value method	(109,184)	(38,389)	(180,363)	
Pro forma	\$ (1,308,772)	\$ (775,797)	\$ (2,138,161)	\$ (1,
Net loss per common share				
As reported	\$ (0.04)	\$ (0.03)	\$ (0.07)	\$
Pro forma	(0.05)	(0.03)	(0.08)	

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

4. LOAN RECEIVABLE, RELATED PARTY

Amounts due from the Company's CEO totaling \$148,342 as of January 31, 2004 are classified as a long-term asset as the loans have no specified due dates, and the Company does not expect repayment of these amounts within one year. These loans were made prior to July 30, 2002 and have not since been materially modified. The Company earns interest on these loans at a rate of 8% per annum.

5. CAPITAL STOCK

In August 2003, the Company issued an aggregate of 120,000 shares of Common Stock to private investors resulting in aggregate gross proceeds of \$60,000 to the Company. In addition, the private investors were granted five-year warrants to purchase 120,000 shares of Common Stock at an exercise price of \$1.25 per share.

In August 2003, the Company issued 3,996 five-year stock options to a consultant as payment for services rendered. The options vested immediately and have a per share exercise price of \$0.60. The Company recorded a total of \$5,235 of non-cash expenses for these options, based upon the fair value on the date of the issuance as estimated by the Black-Scholes options pricing model.

In September 2003, Alfacell entered into a two-part financing agreement with SF Capital Partners, Ltd. for the initial private placement of 1,704,546 shares of Common Stock and warrants to purchase 852,273 shares of Common Stock, at an exercise price of \$1.50 per share. As consideration, Alfacell received \$1,500,000. In addition, the Company agreed to grant SF Capital Partners, Ltd. a warrant to invest an additional \$1,500,000 to purchase the Company's Common Stock at an exercise price based upon a 20-day trailing average of the closing price per share of the Company's Common Stock (the "Additional Warrants"). The Company also issued 38,710 shares of restricted Common Stock to a third party as finder's fee.

In November 2003, the Company issued 25,000 five-year stock options to a board member as payment for non-board related services. The options vested

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immediately and have a per share exercise price of \$3.46. The Company recorded a total of \$52,658 of non-cash expenses for these options, based upon the fair value on the date of the issuance as estimated by the Black-Scholes options pricing model.

On January 16, 2004, the Company issued the Additional Warrants to SF Capital. On January 29, 2004, SF Capital exercised the Additional Warrant and invested an additional \$1,500,000 to purchase the Company's Common Stock at a 20-day trailing average exercise price of \$3.96. In exchange, SF Capital received 379,170 shares of Common Stock and an Exercise Warrant to purchase an additional 189,585 shares of Common Stock at a per share exercise price of \$4.75. Pursuant to the terms of the financing agreement entered into in the September 2003 private placement, the Company is registering the resale by SF Capital of 379,170 shares of Common Stock and 189,585 shares of Common Stock underlying warrants. The Company also issued 15,166 shares of restricted Common Stock to a third party as finder's fee.

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ALFACELL CORPORATION
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

5. CAPITAL STOCK, Continued

In December 2003, the Company issued 12,604 restricted shares of Common Stock as payment of accounts payable in the amount of \$42,729.

On January 14, 2004 at the Company's annual stockholders' meeting, the Company's stockholders approved an amendment to the Company's Certificate of Incorporation, as amended, to increase the number of shares of Common Stock authorized. Since no notes payable had been converted as of such date, the amended terms of the Company's notes payable relating to conversion and exercise, reverted to their original terms so that they are again convertible into shares of Common Stock, rather than shares of Series A Preferred Stock.

In January 2004, the Company issued an aggregate of 50,000 shares of restricted Common Stock as payment for services rendered in an aggregate amount of \$90,000.

During the six months ended January 31, 2004, the Company issued, an aggregate of 1,611,990 shares of Common Stock upon the exercise of warrants by unrelated parties and stock options by unrelated parties, employees and a director at per share exercise prices ranging from \$0.26 to \$3.12. The Company realized aggregate gross proceeds of \$1,228,321 from these exercises.

During the six months ended January 31, 2004, the Company incurred an aggregate of \$133,940 of costs relating to various private placements.

6. 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 2004 (July 1, 2003 to June 30, 2004), the Company had approximately \$1,378,000 total available tax benefits, of which approximately \$261,000 was allocated and approximately \$222,000 was sold and recognized as tax benefits during the six months ended

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January 31, 2004. In December 2002, the Company received approximately \$231,000 from the sale of its allocated tax benefits, which was recognized as a tax benefit during the six months ended January 31, 2003. The Company will attempt to sell the remaining balance of its tax benefits in the amount of approximately \$1,117,000 between July 1, 2004 and June 30, 2005, 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.

7. SUBSEQUENT EVENTS

On February 4, 2004, the Company filed a Certificate of Elimination with the Delaware Secretary of State to eliminate the class of Series A Preferred Stock, which is no longer necessary due to the conversion of the Company's notes payable into Common Stock.

In February 2004, the Company issued an aggregate of 47,000 shares of Common Stock upon the exercise of stock options by an unrelated party and employees at per share exercise prices ranging from \$0.26 to \$0.75. The Company realized aggregate gross proceeds of \$29,300 from these exercises.

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PART II

Item 13. Expenses of Issuance and Distribution

The following table sets forth an itemized estimate of fees and expenses payable by the Registrant in connection with the offering of the securities described in this registration statement

SEC registration fee	\$ 5,000
Blue Sky	\$ 2,000
Legal fees and expenses	\$ 50,000
Accounting fees and expenses	\$ 30,000
Printing expenses	\$ 10,000
Miscellaneous	\$ 8,000

Total	\$105,000
	=====

Item 14. Indemnification of Directors and Officers

Under the General Corporation Law of Delaware a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation), by reason of the fact that he or she is or was our director, officer, employee or agent, or is or was serving at our request against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

In addition, the Delaware GCL also provides that we also may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in our right to procure a judgment in our favor by reason of the fact that he or she is or was our

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director, officer, employee or agent, or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests. However, in such an action by or on our behalf, no indemnification may be made in respect of any claim, issue or matter as to which the person is adjudged liable to us unless and only to the extent that the court determines that, despite the adjudication of liability but in view of all the circumstances, the person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

Our certificate of incorporation is consistent with the Delaware GCL and our by-laws provide that each of our directors, officers, employees and agents shall be indemnified to the extent permitted by the Delaware GCL.

We have entered into indemnification agreements with each of our directors. The indemnity agreements are consistent with our by-laws and our policy to indemnify directors to the fullest extent permitted by law. The indemnity agreements provide for indemnification of directors for liabilities arising out of claims against such persons acting as our directors (or any entity controlling, controlled by or under common control with us) due to any actual or alleged breach of duty, neglect, error, misstatement, misleading statement, omission or other act done, or suffered or wrongfully attempted by such directors, except as prohibited by law. The indemnity agreements also provide for the advancement of costs and

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expenses, including attorneys' fees, reasonably incurred by directors in defending or investigating any action, suit, proceeding or claim, subject to an undertaking by such directors to repay such amounts if it is ultimately determined that such directors are not entitled to indemnification. The indemnity agreements cover future acts and omissions of directors for which actions may be brought.

The indemnity agreements also provide that directors, officers, employees and agents are entitled to indemnification against all expenses (including attorneys' fees) reasonably incurred in seeking to collect an indemnity claim or to obtain advancement of expenses from us. The rights of directors under the indemnity agreements are not exclusive of any other rights directors may have under Delaware GCL, any liability insurance policies that may be obtained, our by-laws or otherwise. We would not be required to indemnify a director for any claim based upon the director gaining in fact a personal profit or advantage to which such director was not legally entitled, any claim for an accounting of profits made in connection with a violation of Section 16(b) of the Securities Exchange Act of 1934 or a similar state or common law provision or any claim brought about or contributed to by the dishonesty of the director.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being

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registered we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Item 15. Recent Sales of Unregistered Securities

The following is a summary of transactions involving our securities during the last three years. Each of the following was exempt from registrations under Section 4(2) of the Securities Act of 1933, as amended, based upon the fact that each issuance was to an accredited investor. The net proceeds from these transactions was used for general corporate purposes, including the funding of research and development.

In September 2000 and January 2001, we issued 80,000 shares of Common Stock upon the exercise of stock options by Mr. Donald R. Conklin and Mr. Martin F. Stadler. We received an aggregate \$37,900 from such exercise.

In April 2001, we completed a private placement resulting in the issuance of 222,222 shares of restricted Common Stock and 222,222 three-year warrants to purchase an aggregate of 222,222 shares of Common Stock at an exercise price of \$2.50 per share. To conform with other private placements, on October 31, 2001, the Board of Directors approved a change in the exercise price of these warrants from \$2.50 per share to \$1.50 per share and changed the expiration date from July 7, 2004 to July 7, 2006. We received an aggregate \$200,000 from such private placements.

In April 2001, we issued convertible notes to certain related and unrelated parties in the aggregate amount of \$366,993. The notes were due within ninety days unless the lenders elect to exercise an option to convert their note into Common Stock at the conversion price of \$0.90 per share. The related parties elected to convert an aggregate \$297,000 notes payable into an aggregate 330,000 shares of Common

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Stock. In addition, upon conversion, they received warrants to purchase an aggregate 330,000 shares of Common Stock at an exercise price of \$2.50 per share and with an expiration date of July 7, 2004. An aggregate balance of the notes to unrelated parties in the amount of \$69,993 was renewed for 120 days for the same conversion price of \$0.90 per share. In October 2001, the remaining noteholders elected to convert an aggregate \$64,993 notes payable into an aggregate 72,214 shares of Common Stock. In addition, upon conversion, they received five-year warrants to purchase an aggregate 72,214 shares of Common Stock at an exercise price of \$1.50 per share. To conform with other private placements, on October 31, 2001, the Board of Directors approved a change in the exercise price of the 330,000 warrants issued to related parties upon conversion of the notes from \$2.50 per share to \$1.50 per share and changed the expiration date to July 7, 2006.

In July 2001, we completed a private placement resulting in the issuance of 307,777 shares of restricted Common Stock and 307,777 five-year warrants to purchase an aggregate 307,777 shares of Common Stock at an exercise price of \$1.50 per share. We received an aggregate \$277,000 from such private placement.

In August 2001, we completed a private placement resulting in the issuance of 115,000 shares of restricted Common Stock and 115,000 five-year warrants to purchase an aggregate of 115,000 shares of Common Stock at per share exercise price of \$1.50 per share. We received an aggregate \$103,500 from such private

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placement.

In August 2001, we converted \$50,000 of our accounts payable owed to DZS Computer Solutions, Inc., into 55,556 shares of Common Stock. In addition we issued to DZS Computer Solutions, Inc. 55,556 five-year warrants to purchase 55,556 shares of Common Stock at an exercise price of \$1.50 per share.

In September 2001, 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 200,000 shares of Common Stock at an exercise price of \$1.50 per share. We received an aggregate \$100,000 from such private placement.

In October 2001, we completed a private placement resulting in the issuance of 125,000 shares of restricted Common Stock and 125,000 five-year warrants to purchase an aggregate 125,000 shares of Common Stock at an exercise price of \$1.50 per share. We received an aggregate \$62,500 from such private placement.

In November 2001, we completed a private placement resulting in the issuance of 209,070 shares of restricted Common Stock and 259,070 five-year warrants to purchase our aggregate 259,070 shares of Common Stock at an exercise price of \$1.50 per share. We received an aggregate \$104,535 from such private placement.

In January 2002, we completed a private placement resulting in the issuance of 150,000 shares of restricted Common Stock and 150,000 five-year warrants to purchase an aggregate 150,000 shares of Common Stock at an exercise price of \$1.50 per share. We received an aggregate \$75,000 from such private placement.

In February 2002, we completed a private placement resulting in the issuance of 1,500,000 five-year warrants to purchase 1,500,000 shares of Common Stock. Of such warrants, 1,100,000 were exercised at \$0.50 per share from March 2002 to September 2003. The remaining 400,000 warrants were

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exercised from September 2003 to October 2003 at an exercise price of \$1.00 per share. We received \$1,500 from such private placement.

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.

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.

In April 2002, we issued warrants to purchase an aggregate 100,000 shares of Common Stock in connection with notes payable to unrelated parties in an aggregate amount of \$100,000. The notes were due thirty days from the date of issuance bearing interest at 8% per annum. The warrants to purchase shares of Common Stock have an exercise price of \$0.60 per share. The notes were either extended for eighteen months or the lenders can convert the notes at a conversion price of \$0.40 per share plus a five-year warrant for each share of Common Stock issued upon conversion at an exercise price of \$1.00 per share.

On May 13, 2002, we completed a private placement resulting in the

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issuance of 500,000 shares of restricted Common Stock and 500,000 five-year warrants to 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.

In June 2002, we completed a private placement resulting in the issuance of 285,714 shares of restricted Common Stock and 285,714 five-year warrants to purchase an aggregate of 285,714 shares of Common Stock at per share exercise price of \$1.00. We received an aggregate \$100,000 from such private placement.

In June 2002, we issued warrants to purchase an aggregate 100,000 shares of Common Stock in connection with notes payable to unrelated parties in an aggregate amount of \$100,000. The notes were due thirty days from the date of issuance bearing interest at 8% per annum. The warrants to purchase shares of Common Stock have an exercise price of \$0.60 per share. The notes were either extended for eighteen months or the lenders can convert the notes at a conversion price of \$0.35 per share plus a five-year warrant for each share of Common Stock issued upon conversion at an exercise price of \$1.00 per share.

In July and September 2002, we issued warrants to purchase an aggregate 150,000 shares of Common Stock in connection with notes payable to unrelated parties in an aggregate amount of \$150,000. The notes were due thirty days from the date of issuance bearing interest at 8% per annum. The warrants to purchase shares of Common Stock have an exercise price of \$0.60 per share. The notes were either extended for eighteen months or the lenders can convert the notes at a conversion price of \$0.30 per share plus a five-year warrant for each share of Common Stock issued upon conversion at an exercise price of \$1.00 per share.

In September and November 2002, we issued warrants to purchase an aggregate 400,000 shares of Common Stock in connection with notes payable to unrelated parties in an aggregate amount of \$400,000. The notes were due thirty days from the date of issuance bearing interest at 8% per annum.

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The warrants to purchase shares of Common Stock have an exercise price of \$0.60 per share. The notes were either extended for eighteen months or the lenders can convert the notes at a conversion price of \$0.20 per share plus a five-year warrant for each share of Common Stock issued upon conversion at an exercise price of \$1.00 per share.

In September 2002, we issued 40,000 shares of Common Stock upon the exercise of warrants by an unrelated party, which resulted in net proceeds of \$10,000.

In October 2002, we 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, we completed a private placement resulting in the issuance of 35,000 shares of restricted Common Stock and 35,000 five-year warrants to purchase 35,000 shares of Common Stock at an exercise price of \$1.00 per share. We received an aggregate of \$7,000 from such private placement.

In December 2002, we issued warrants to purchase an aggregate 65,000 shares of Common Stock in connection with notes payable to unrelated parties in an aggregate amount of \$65,000. The notes were due thirty days from the date of issuance bearing interest at 8% per annum. The warrants to purchase shares of Common Stock have an exercise price of \$0.60 per share. The notes were either extended for eighteen months or the lenders can convert the notes at a

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conversion price of \$0.35 per share plus a five-year warrant for each share of Common Stock issued upon conversion at an exercise price of \$1.00 per share.

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.

In March 2003, we issued a \$100,000 8% note payable to an unrelated party, which will become due in September 2004. In consideration for the loan, we issued warrants to purchase 100,000 shares of Common Stock expiring five years from the date of issuance at an exercise price of \$0.60 per share. In addition, we will issue on the due date of the note warrants to purchase 100,000 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 shares of our Common Stock at a conversion rate of \$0.35 per share.

In April 2003, we completed several private placements resulting in the issuance of an aggregate of 440,000 shares of restricted Common Stock and five-year warrants to purchase 440,000 shares of Common Stock at an exercise price of \$1.25 per share. We received an aggregate of \$220,000 from such private placements.

In May 2003, we issued a \$100,000 8% note payable to an unrelated party, which will become due in November 2004. The unrelated party can convert the note into shares of our Common Stock at a conversion rate of \$0.50 per share. In addition, upon conversion of the note, we will issue warrants to purchase an equal number of shares of Common Stock at an exercise price of \$1.00 per share, expiring five years from the date of issuance.

From May 2003 to July 2003, we settled \$84,223 of our accounts payable by issuing 149,171 shares of restricted Common Stock.

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From May 2003 to July 2003, we issued to private investors an aggregate 730,000 shares of restricted Common Stock and five-year warrants to purchase an aggregate 730,000 shares of Common Stock at exercise prices ranging from \$1.25 to \$1.50 per share. We received an aggregate of \$411,000 from such private placements.

From May 2003 to July 2003, we issued an aggregate of 724,000 shares of Common Stock upon the exercise of warrants and options by unrelated parties, which resulted in aggregate gross proceeds of \$358,000 to us.

In August 2003, we issued an aggregate of 120,000 shares of Common Stock to private investors resulting in aggregate gross proceeds of \$60,000 to us. In addition, the private investors were granted five-year warrants to purchase 120,000 shares of Common Stock at an exercise price of \$1.25 per share.

From August 2003 through October 2003, we issued an aggregate of 1,229,273 shares of Common Stock upon the exercise of warrants by unrelated parties at per share exercise prices ranging from \$0.50 to \$1.00. We realized aggregate gross proceeds of \$953,455.

In September 2003, we issued 1,704,546 shares of Common Stock to an institutional investor resulting in gross proceeds of \$1,500,000 to us. In addition, the institutional investor was granted five-year warrants to purchase 852,273 shares of Common Stock at an exercise price of \$1.50 per share. We also issued 38,710 shares of restricted Common Stock to a third party in connection

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with the private placement as finder's fee.

In December 2003, we issued 12,604 shares of restricted Common Stock to an unrelated party as payment for services rendered in the amount of \$42,729.

In January 2004, we issued an Additional Warrant to an institutional investor, permitting such institutional investor to invest an additional \$1,500,000 to purchase shares of Common Stock at an exercise price based upon a 20-day trailing average of the closing price per share of our Common Stock. In January 2004, the institutional investor exercised the Additional Warrant based on a 20-day trailing average exercise price of \$3.956. Upon exercise, the institutional investor received 379,170 shares of Common Stock and an Exercise Warrant to purchase an additional 189,585 shares of Common Stock at an exercise price of \$4.75 per share, all of which are being registered pursuant to this registration statement. We also issued 15,166 shares of restricted Common Stock to a third party as a finder's fee.

In January 2004, we issued an aggregate of 50,000 restricted shares of Common Stock to unrelated parties as payment for services rendered in the amount of \$90,000.

From February 2004 through April 7, 2004, we issued an aggregate 1,468,393 shares of restricted Common Stock and 1,918,393 shares of Common Stock underlying five-year warrants with an exercise price of \$1.00 per share upon the conversion of notes payable by unrelated parties. We realized aggregate proceeds of \$514,600.

In May 2004, we issued 1,210,654 shares of Common Stock to an existing institutional investor, resulting in gross proceeds of \$10,000,000 to us. In addition, the institutional investor was granted five-year warrants to purchase 1,210,654 shares of Common Stock at an exercise price of \$12.39 per share. We paid a 5% finder's fee to a third party in connection with the private placement, which included a five-year warrant to purchase 60,533 shares of Common Stock at an exercise price of \$12.39 per share.

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Item 16. Exhibits, Financial Statement Schedules

Exhibit No.	Item Title	Exhibit Incorporation Reference
---	-----	-----
3.1	Certificate of Incorporation, dated June 12, 1981 (incorporated by reference to Exhibit 3.1 to Registrant's Registration Statement on Form S-1, File No. 333-112865, filed on February 17, 2004)	*
3.2	Amendment to Certificate of Incorporation, dated February 18, 1994 (incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form S-1, File No. 333-112865, filed on February 17, 2004)	*
3.3	Amendment to Certificate of Incorporation, dated December 26, 1997 (incorporated by reference to Exhibit 3.3 to Registrant's Registration Statement on Form S-1, File No. 333-112865, filed on February 17, 2004)	*

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3.4	Amendment to Certificate of Incorporation, dated January 14, 2004 (incorporated by reference to Exhibit 3.4 to Registrant's Registration Statement on Form S-1, File No. 333-112865, filed on February 17, 2004)	*
3.5	Certificate of Designation for Series A Preferred Stock, dated September 2, 2003 (incorporated by reference to Exhibit 3.5 to Registrant's Registration Statement on Form S-1, File No. 333-112865, filed on February 17, 2004)	*
3.6	Certificate of Elimination of Series A Preferred Stock, dated February 3, 2004 (incorporated by reference to Exhibit 3.6 to Registrant's Registration Statement on Form S-1, File No. 333-112865, filed on February 17, 2004)	*
3.7	By-Laws (incorporated by reference to Exhibit 3.4 to Registration Statement on Form S-1, File No. 333-111101, filed on December 11, 2003)	*
4.1	Securities Purchase Agreement and Warrant Agreement used in September 2003 private placement and Form of Warrant Certificate issued on January 16, 2004 and January 29, 2004 to SF Capital Partners Ltd. (incorporated by reference to Exhibit 10.25 to Registrant's Annual Report on Form 10-K, filed on October 29, 2003)	*
4.2	Registration Rights Agreement used in September 2003 private placement with SF Capital Partners Ltd. (incorporated by reference to Exhibit 10.26 to Registrant's Annual Report on Form 10-K, filed on October 29, 2003)	*
4.3	Form of Securities Purchase Agreement used in May 2004 private placement with Knoll Capital Fund II, Europa International, Inc. and Clifford and Phyllis Kalista JTWROS	+
4.4	Form of Registration Rights Agreement used in May 2004 private placement with Knoll Capital Fund II, Europa International, Inc. and Clifford and Phyllis Kalista JTWROS	+
4.5	Form of Warrant Certificate issued on May 11, 2004 to Knoll Capital Fund II, Europa International, Inc. and Clifford and Phyllis Kalista JTWROS	+
5.1	Opinion of Dorsey & Whitney LLP	+
10.1	1993 Stock Option Plan and Form of Option Agreement (incorporated by reference to Exhibit 10.10 to Registration Statement on Form SB-2, File No. 33-76950, filed on August 1, 1994)	*

Exhibit No. ---	Item Title -----	Exhibit Incorporation Reference -----
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- 10.2 1997 Stock Option Plan (incorporated by reference to Exhibit 10.2 to Registration Statement on Form S-1, File No. 333-111101, filed on December 11, 2003) *
- 10.3 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Registrant's Registration Statement on Form S-1, File No. 333-112865, filed on February 17, 2004) *
- 10.4 Form of Subscription Agreement and Warrant Agreement used in Private Placements completed in February 2000 (incorporated by reference to Exhibit 10.21 to Registrant's Annual Report on Form 10-K, filed on October 30, 2000) *
- 10.5 Form of Subscription Agreement and Warrant Agreement used in the August and September 2000 Private Placements (incorporated by reference to Exhibit 10.24 to Registrant's Quarterly Report on Form 10-Q, filed on December 15, 2000) *
- 10.6 Form of Subscription Agreement and Warrant Agreement used in the April 2001 Private Placements (incorporated by reference to Exhibit 10.23 to Registration Statement on Form S-1, File No. 333-38136, filed on July 30, 2001) *
- 10.7 Form of Convertible Note entered into in April 2001 (incorporated by reference to Exhibit 10.24 to Registration Statement on Form S-1, File No. 333-38136, filed on July 30, 2001) *
- 10.8 Form of Subscription Agreement and Warrant Agreement used in the July 2001 Private Placements (incorporated by reference to Exhibit 10.25 to Registration Statement on Form S-1, File No. 333-38136, filed on July 30, 2001) *
- 10.9 Form of Subscription Agreement and Warrant Agreement used in the August and October 2001 private placement (incorporated by reference to Exhibit 10.26 to Registration Statement on Form S-1, File No. 333-38136, filed on December 14, 2001) *
- 10.10 Form of Subscription Agreement and Warrant Agreement used in the September 2001, November 2001 and January 2002 private placements (incorporated by reference to Exhibit 10.27 to Registration Statement on Form S-1, File No. 333-38136, filed on February 21, 2002) *
- 10.11 Warrant issued in the February 2002 private placement (incorporated by reference to Exhibit 10.28 to Registration Statement on Form S-1, File No. 333-38136, filed on February 21, 2002) *
- 10.12 Form of Subscription Agreement and Warrant Agreement used in the March 2002, April 2002 and May 2002 private placements (incorporated by reference to Exhibit 10.29 to Registration Statement on Form S-1, File No. 333-89166, filed on May 24, 2002) *
- 10.13 Form of Subscription Agreement and Warrant Agreement used in the June 2002 and October 2002 private placements (incorporated by reference to Exhibit 10.30 to the Post-Effective Amendment to Registration Statement on Form S-1, File No. 333-38136, filed on March 3, 2003) *

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Exhibit No. ---	Item Title -----	Exhibit Incorporation Reference -----
10.14	Form of Note Payable and Warrant Certificate entered into April, June, July, September, November and December 2002 (incorporated by reference to Exhibit 10.31 to the Post-Effective Amendment to Registration Statement on Form S-1, File No. 333-38136, filed on March 3, 2003)	*
10.15	Form of Note Payable and Warrant Certificate entered into November 2001, January, March and May 2003 (incorporated by reference to Exhibit 10.23 to Registrant's Annual Report on Form 10-K, filed on October 29, 2003)	*
10.16	Form of Subscription Agreement and Warrant Agreement used in the February 2003 and April through August 2003 private placements (incorporated by reference to Exhibit 10.24 to Registrant's Annual Report on Form 10-K, filed on October 29, 2003)	*
10.17	Form of Amended Notes Payable which amends the November 2001, April 2002, June 2002, July 2002, September 2002, November 2002 December 2002, January 2003, March 2003 and May 2003 notes payable (incorporated by reference to Exhibit 10.27 to Registrant's Annual Report on Form 10-K, filed on October 29, 2003)	*
21.1	Subsidiaries of Registrant (incorporated by reference to Exhibit 21.1 to Registrant's Registration Statement on Form S-1, File No. 333-112865, filed on February 17, 2004)	*
23.1	Consent of J.H. Cohn LLP	+
23.2	Consent of KPMG LLP	+
23.3	Consent of Dorsey & Whitney LLP (included in Exhibit 5.1)	+

* Previously filed; incorporated herein by reference

+ Filed herewith

Item 17. Undertakings

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

- (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;
- (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which

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was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in the

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volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

- (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the registration statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in the periodic reports filed with or furnished to the Securities and Exchange Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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ALFACELL CORPORATION

Dated: May 18, 2004

By: /s/ Kuslima Shogen

Kuslima Shogen, Chief Executive Officer and
Chairman of the Board

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the indicated capacities on May 18, 2004.

/s/ Kuslima Shogen

Kuslima Shogen, Chief Executive
Officer, Principal Executive Officer and
Chairman of the Board

*

John P. Brancaccio, C.P.A., Director

*

Stephen K. Carter, M.D., Director

*

Donald R. Conklin, Director

*

James J. Loughlin, Director

/s/ Andrew P. Savadelis

Andrew P. Savadelis, Director,
Chief Financial Officer and Principal Financial Officer

*

Paul M. Weiss, Ph.D., Director

* The undersigned by signing her name hereto, does hereby sign this Registration Statement or amendment thereto on behalf of the above indicated directors and officers of Alfacell Corporation pursuant to the power of attorney executed on behalf of each such director.

/s/ Kuslima Shogen

Kuslima Shogen, Chief Executive Officer
and Chairman of the Board

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Exhibit Index

- 4.3 Form of Securities Purchase Agreement used in May 2004 private placement with Knoll Capital Fund II, Europa International, Inc. and Clifford and Phyllis Kalista JTWROS
- 4.4 Form of Registration Rights Agreement used in May 2004 private placement with Knoll Capital Fund II, Europa International, Inc. and Clifford and Phyllis Kalista JTWROS
- 4.5 Form of Warrant Certificate issued on May 11, 2004 to Knoll Capital Fund II, Europa International, Inc. and Clifford and Phyllis Kalista JTWROS
- 5.1 Opinion of Dorsey & Whitney LLP

- 23.1 Consent of J.H. Cohn LLP
- 23.2 Consent of KPMG LLP
- 23.3 Consent of Dorsey & Whitney LLP (included in Exhibit 5.1)