CEL SCI CORP
Form 10-Q
August 14, 2006

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

FORM 10-Q

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

For the quarterly period ended June 30, 2006

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to ______________.

Commission File Number 0-11503

CEL-SCI CORPORATION

Colorado	84-0916344
State or other jurisdiction incorporation	(IRS) Employer Identification Number

8229 Boone Boulevard, Suite 802
Vienna, Virginia 22182
Address of principal executive offices

(703) 506-9460
Registrant's telephone number, including area code

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) had been subject to such filing requirements for the past 90 days.

Yes ____X_____ No __________

Indicate by check mark whether the Registrant is an accelerated filer (as that term is defined in Exchange Act Rule 12b-2).

Yes _________ No _____X____

Class of Stock	No. Shares Outstanding	Date
Common	81,512,038	August 1, 2006

TABLE OF CONTENTS

Item 1. FINANCIAL STATEMENTS

CEL-SCI CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

ASSETS	June 30, 2006	September 30, 2005
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,360,943	$ 1,957,614

Interest and other receivables	30,419	21,164
Prepaid expenses and laboratory supplies	700,056	432,652
Deferred financing costs	5,000	--
Total current assets	2,096,418	2,411,430
RESEARCH AND OFFICE EQUIPMENT- Less accumulated depreciation of $1,760,760 and $1,690,788	112,163	181,541
PATENT COSTS- less accumulated amortization of $875,694 and $816,169	504,647	484,553
DEPOSITS	14,828	14,828
TOTAL ASSETS	$ 2,728,056	$ 3,092,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 112,083	$ 74,354
Accrued expenses	78,007	74,619
Due to employees	60,882	22,880
Derivative instruments - current portion	1,495	1,280
Total current liabilities	252,467	173,133
Derivative instruments - noncurrent portion	--	811,180
Deposits held	3,000	3,000
Total liabilities	255,467	987,313
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value; authorized, 200,000,000 shares; issued and outstanding, 81,462,038 and 74,494,206 shares at June 30, 2006 and September 30, 2005, respectively	814,620	744,942
Additional paid-in capital	104,279,407	100,359,296
Accumulated deficit	(102,621,438)	(98,999,199)
Total stockholders' equity	2,472,589	2,105,039
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,728,056	$ 3,092,352

See notes to condensed consolidated financial statements.

CEL-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Nine Months Ended June 30,	
	2006	2005

	----	----
REVENUES:		
Grant revenue and other	$ 106,370	$ 223,395
EXPENSES:		
Research and development excluding depreciation of $55,532 and $49,999 included below	1,290,843	1,824,044
Depreciation and amortization	130,143	149,590
General and administrative	2,353,956	1,537,454
Total Operating Expenses	3,774,942	3,511,088
NET OPERATING LOSS	(3,668,572)	(3,287,693)
GAIN ON DERIVATIVE INSTRUMENTS	13,130	211,715
INTEREST INCOME	33,203	43,309
NET LOSS	$(3,622,239)	$(3,032,669)
NET LOSS PER COMMON SHARE (BASIC)	$ (0.05)	$ (0.04)
NET LOSS PER COMMON SHARE (DILUTED)	$ (0.05)	$ (0.04)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	78,076,239	72,316,654

See notes to condensed consolidated financial statements.

4

CEL-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended June 30,	
	2006	2005
REVENUES:		
Grant revenue and other	$ 39,708	$ 38,103
EXPENSES:		
Research and development, excluding		

depreciation of $18,511 and $16,666 included below	429,097	538,053
Depreciation and amortization	42,718	39,822
General and administrative	873,350	444,599
Total Operating Expenses	1,345,165	1,022,474
NET OPERATING LOSS	(1,305,457)	(984,371)
GAIN ON DERIVATIVE INSTRUMENTS	1,615	319,570
INTEREST INCOME	9,801	11,015
NET LOSS	$ (1,294,041)	$ (653,786)
NET LOSS PER COMMON SHARE (BASIC)	$ (0.02)	$ (0.01)
NET LOSS PER COMMON SHARE (DILUTED)	$ (0.02)	$ (0.01)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	80,874,687	72,484,497

See notes to condensed consolidated financial statements.

CEL-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(unaudited)

	Nine Months Ended June 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET LOSS	$ (3,622,239)	$ (3,032,669)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	130,143	149,590
Issuance of common stock, warrants and stock options for services	605,951	7,972
Employee option cost	142,690	--
Common stock contributed to 401(k) plan	64,663	60,928
Decrease in unearned compensation	--	11,649
Impairment loss on abandonment of patents	--	3,716

Impairment loss on retired equipment	645	267
Gain on derivative instruments	(13,130)	(211,715)
(Increase) decrease in receivables	(9,255)	4,880
(Increase) decrease in prepaid expenses	(267,404)	123,069
Increase in deferred financing costs	(5,000)	--
Increase in accrued expenses	3,388	20,959
Increase in amount due to employees	38,002	15,166
Increase (decrease) in accounts payable	28,580	(28,173)
NET CASH USED FOR OPERATING ACTIVITIES	(2,902,966)	(2,874,361)
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Purchase of equipment	(1,885)	(65,735)
Patent costs	(70,470)	(39,992)
NET CASH USED FOR INVESTING ACTIVITIES	(72,355)	(105,727)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Private placement proceeds	1,000,000	--
Drawdown on equity line (net)	677,727	163,636
Proceeds from exercise of stock options and warrants	700,923	41,501
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,378,650	205,137
NET DECREASE IN CASH AND CASH EQUIVALENTS	(596,671)	(2,774,951)
CASH AND CASH EQUIVALENTS:		
Beginning of period	1,957,614	4,263,631
End of period	$ 1,360,943	$ 1,488,680

(continued)

See notes to condensed consolidated financial statements.

6

CEL-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(unaudited)
(continued)

	Nine Months Ended June 30, 2006	2005
SUPPLEMENTAL INFORMATION ON NONCASH TRANSACTIONS:		
Patent costs included in accounts payable:		
Increase in accounts payable	$ 9,149	$ 38,135
Increase in patent costs	(9,149)	(38,135)

	$ --	$ --
Reclassification of derivative instruments:		
Decrease in derivative instruments	$ 797,835	$ --
Increase in additional paid-in capital	(797,835)	--
	$ --	$ --
Cost of new warrants and repricing of old warrants on private placement:		
Decrease in additional paid-in capital	$ 1,192,949	$ --
Increase in additional paid-in capital	(1,192,949)	--
	$ --	$ --
Cashless exercise of warrants:		
Decrease in additional paid-in capital	$ 8,822	$ --
Increase in common stock	(8,822)	--
	$ --	$ --

concluded

See notes to condensed consolidated financial statements.

CEL-SCI CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED JUNE 30, 2006 AND 2005
(unaudited)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements of CEL-SCI Corporation and subsidiary (the Company) are unaudited and certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. While management of the Company believes that the disclosures presented are adequate to make the information presented not misleading, interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's annual report on Form 10-K for the year ended September 30, 2005.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all accruals and adjustments (each of which is of a normal recurring nature) necessary for a fair presentation of the financial position as of June 30, 2006 and the results of operations for the three and nine-month periods then ended. The condensed consolidated balance sheet as of September 30, 2005 is derived from the September 30, 2005 audited consolidated financial statements. Significant accounting policies have been consistently applied in the interim financial statements and the annual financial statements. The results of operations for the three and nine-month periods ended June 30, 2006 are not necessarily indicative of the results to be expected for the entire year.

Significant accounting policies are as follows:

Principles of Consolidation -- The consolidated financial statements include the accounts of CEL-SCI Corporation and its wholly owned subsidiary, Viral Technologies, Inc. All intercompany transactions have been eliminated upon consolidation.

Research and Office Equipment -- Research and office equipment is recorded at cost and depreciated using the straight-line method over estimated useful lives of five to seven years. Leasehold improvements are depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Repairs and maintenance are expensed when incurred. During the nine-month periods ended June 30, 2006 and 2005, the Company retired equipment with a net book value of $645 and $267 respectively.

Research and Development Costs -- Research and development (R&D) expenditures are expensed as incurred. The Company has an agreement with Cambrex Bio Science, an unrelated corporation, for the production of Multikine(R), which is the Company's only product source. All production costs of Multikine are expensed to R&D immediately.

Research and Development Grant Revenues -- The Company's grant arrangements are handled on a reimbursement basis. Grant revenues under the arrangements are recognized as grant revenue when costs are incurred.

Patents -- Patent expenditures are capitalized and amortized using the straight-line method over 17 years. In the event changes in technology or other circumstances impair the value or life of the patent, appropriate adjustment in the asset value and period of amortization is made. An impairment loss is recognized when estimated future undiscounted cash flows expected to result from the use of the asset, and from disposition, is less than the carrying value of the asset. The amount of the impairment loss would be the difference between the estimated fair value of the asset and its carrying value. During the nine months ended June 30, 2006 and 2005, the Company recorded patent impairment charges of $-0- and $3,716, respectively. These charges are the net book value of patents abandoned during the period and such amount is included in general and administrative expenses. Based on current patent applications and issued patents, CEL-SCI expects that the amortization of patent expenses will total approximately $350,000 during the next five years.

Net Loss per Common Share -- Net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Potentially dilutive common shares, including convertible options to purchase common stock, were excluded from the calculation because they are antidilutive.

Prepaid Expenses and Laboratory Supplies -- The majority of prepaid expenses consist of bulk purchases of laboratory supplies used on a daily basis in the lab and items that will be used for future production. The items in prepaid expenses are expensed when used in production or daily activity as R&D expenses. These items are disposables and consumables and can be used for both the manufacturing of Multikine for clinical studies and in the laboratory for quality control and bioassay use. They can be used in training, testing and daily laboratory activities. Other prepaid expenses are payments for services over a long period and are expensed over the time period for which the service is rendered.

Cash and Cash Equivalents -- For purposes of the statements of cash flows, cash and cash equivalents consists principally of unrestricted cash on deposit and short-term money market funds. The Company considers all highly liquid investments with a maturity when purchased of less than three months, and those investments that are readily convertible to known amounts of cash and are so close to maturity that they bear no interest rate risk, to be cash equivalents.

Use of Estimates -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Asset Valuations and Review for Potential Impairment -- The Company reviews its fixed assets every quarter. This review requires that the Company make assumptions regarding the value of these assets and the changes in circumstances that would affect the carrying value of these assets. If such analysis indicates that a possible impairment may exist, the Company is then required to estimate the fair value of the asset and, as deemed appropriate, expense all or a portion of the asset. The determination of fair value includes numerous uncertainties, such as the impact of competition on future value. The Company believes that it has made reasonable estimates and judgments in determining whether its long-lived assets have been impaired; however, if there is a material change in the assumptions used in our determination of fair values or if there is a material change in economic conditions or circumstances influencing fair value, the Company could be required to recognize certain impairment charges in the future.

Stock-Based Compensation -- In October 1996, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). This statement encouraged but did not require companies to account for employee stock compensation awards based on their estimated fair value at the grant date with the resulting cost charged to operations. The Company had elected to continue to account for its employee stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations". In December 2004 the FASB issued SFAS No. 123R, "Share-Based Payment". SFAS No. 123R requires companies to recognize expense associated with share based compensation arrangements, including employee stock options, using a fair value-based option pricing model. SFAS No. 123R applies to all transactions involving issuance of equity by a company in exchange for goods and services, including employees. Using the modified prospective transition method of adoption, CEL-SCI reflects compensation expense in the financial statements beginning October 1, 2005. The modified prospective transition method does not require restatement of prior periods to reflect the impact of SFAS No. 123R. As such, compensation expense will be recognized for awards that were granted, modified, repurchased or cancelled on or after October 1, 2005 as well as for the portion of awards previously granted that vested during the period ended June 30, 2006. For the nine months ended June 30, 2006, the Company recorded $142,690 in general and administrative expense for the cost of employee options. The Company's options vest over a three-year period from the date of grant. After one year, the stock is one-third vested, with an additional one-third vesting after two years and the final one-third vesting at the end of the three-year period. There were no options granted during the nine-month period ended June 30, 2006. Options are granted with an exercise price equal to the closing bid price of the Company's stock on the day before the grant. The Company determines the fair value of the employee compensation using the Black Scholes method of valuation. This method requires several assumptions, including the following assumptions for the options vesting during the nine-months ended June 30, 2006.

10

Volatility	74% - 106%
Dividend yield	0%
Risk-free interest rate	3.12% - 4.25%
Expected average life	5 years
Exercise price per option	$0.22 - $1.67

CEL-SCI has Incentive Stock Option Plans, Non-Qualified Stock Option Plans, a Stock Compensation Plan and Stock Bonus Plans. All Stock Option and Bonus Plans have been approved by the stockholders. A summary description of these Plans follows. In some cases these Plans are collectively referred to as the "Plans".

Incentive Stock Option Plan. The Incentive Stock Option Plans authorize the issuance of shares of CEL-SCI's common stock to persons who exercise options granted pursuant to the Plan. Only Company employees may be granted options pursuant to the Incentive Stock Option Plan.

To be classified as incentive stock options under the Internal Revenue Code, options granted pursuant to the Plans must be exercised prior to the following dates:

(a) The expiration of three months after the date on which an option holder's employment by CEL-SCI is terminated (except if such termination is due to death or permanent and total disability);

(b) The expiration of 12 months after the date on which an option holder's employment by CEL-SCI is terminated, if such termination is due to the Employee's permanent and total disability;

(c) In the event of an option holder's death while in the employ of CEL-SCI, his executors or administrators may exercise, within three months following the date of his death, the option as to any of the shares not previously exercised;

The total fair market value of the shares of Common Stock (determined at the time of the grant of the option) for which any employee may be granted options which are first exercisable in any calendar year may not exceed $100,000.

Options may not be exercised until one year following the date of grant. Options granted to an employee then owning more than 10% of the Common Stock of CEL-SCI may not be exercisable by its terms after five years from the date of grant. Any other option granted pursuant to the Plan may not be exercisable by its terms after ten years from the date of grant.

The purchase price per share of Common Stock purchasable under an option is determined by the Committee but cannot be less than the fair market value of the Common Stock on the date of the grant of the option (or 110% of the fair market value in the case of a person owning more than 10% of CEL-SCI's outstanding shares).

Non-Qualified Stock Option Plans. The Non-Qualified Stock Option Plans authorize the issuance of shares of CEL-SCI's common stock to persons that exercise options granted pursuant to the Plans. CEL-SCI's employees, directors, officers, consultants and advisors are eligible to be granted options pursuant to the Plans, provided however that bona fide services must be rendered by such consultants or advisors and such services must not be in connection with the offer or sale of securities in a capital-raising transaction. The option exercise price is determined by the Committee but cannot be less than the market price of CEL-SCI's Common Stock on the date the option is granted.

The following table summarizes stock option activity for the nine months ended June 30, 2006.

Non-Qualified Stock Option Plan

Outstanding	Ex

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Shares	Weighted Average Exercise Pri
Outstanding at October 1, 2005	6,215,363	$ 0.66	5.80	$ 642,085	4,642,893	$ 0.76
Vested	-				-	
Granted	-				-	
Exercised	(71,335)	0.22	7.33	19,260	(71,335)	0.22
Forfeited	-				-	
Expired	-				-	
Outstanding at December 31, 2005	6,144,028	0.67	5.80	659,395	4,571,558	0.77
Vested	-				-	
Granted						
Exercised	-				-	
Forfeited	-				-	
Expired					-	
Outstanding at March 31, 2006	6,144,028	0.67	5.51	1,486,298	4,571,558	0.77

	Outstanding				Ex	
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Shares	Weighted Average Exercise
Vested	--				847,812	0.22
Granted	--				-	
Exercised	(65,966)	0.26	6.55	40,048	(65,966)	0.26
Forfeited	--				-	
Expired	--				-	
Outstanding at June 30, 2006	6,078,062	$0.67	5.33	$1,953,297	5,353,404	$ 0.71

Incentive Stock Option Plan

	Outstanding				Ex	
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Shares	Weighted Average Exercise Pri
Outstanding at October 1, 2005	3,972,633	$ 0.68	6.18	$ 630,833	2,885,968	$ 0.81
Vested	-				-	
Granted	-				-	
Exercised	-				-	
Forfeited	-				-	
Expired	-				-	
Outstanding at December 31, 2005	3,972,633	0.68	6.18	683,000	2,885,968	0.81
Vested	-				33,333	1.13
Granted	-				-	
Exercised	-				-	
Forfeited	-				-	
Expired	(1,500)	1.05			(1,500)	1.05
Outstanding at March 31, 2006	3,971,133	0.68	5.93	1,329,400	2,917,801	0.82
Vested	-				849,999	0.22
Granted	-				-	
Exercised	-				-	
Forfeited	(1,200)	8.43			(1,200)	8.43
Expired	-				-	
Outstanding at June 30, 2006	3,969,933	$0.67	5.68	$1,679,533	3,766,600	$0.88

The total intrinsic value of options exercised during the nine months ended June 30, 2006 and 2005 was $60,955 and $79,263, respectively.

A summary of the status of the Company's non-vested options as of June 30, 2006 is presented below:

13

Weighted
Average

	Number of Shares	Grant Date Fair Value
Non-Qualified Stock Option Plan		
Nonvested at October 1, 2005	1,572,470	$ 0.25
Vested	-	
Granted	-	
Forfeited	-	
Expired	-	
Nonvested at December 31, 2005	1,572,470	0.25
Vested	-	
Granted	-	
Forfeited	-	
Expired	-	
Nonvested at March 31, 2006	1,572,470	0.25
Vested	(847,812)	0.22
Granted	-	
Forfeited	-	
Expired	-	
Nonvested at June 30, 2006	724,658	$ 0.56
Incentive Stock Option Plan		
Nonvested at October 1, 2005	1,086,665	$ 0.21
Vested		
Granted	-	
Forfeited	-	
Expired	-	
Nonvested at December 31, 2005	1,086,665	0.21
Vested	(33,333)	0.79
Granted	-	
Forfeited	-	
Expired	-	
Nonvested at March 31, 2006	1,053,332	0.18
Vested	(849,999)	0.22
Granted	-	
Forfeited	-	
Expired	-	
Nonvested at June 30, 2006	203,333	$ 0.59

No corresponding expense was recorded for the nine months ended June 30, 2005 because the statement did not require the cost to be recorded in that period. Under SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which was in effect during the nine months ended June 30, 2005, the Company's net loss and net loss per common share would have been increased to the pro forma amounts indicated below:

	Nine Months Ended June 30, 2005	Three Months Ended June 30, 2005
Net loss:		
As reported and amended	$(3,244,384)	$(973,356)
Add: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(419,789)	(144,949)
Pro forma net loss, as amended	$(3,664,173)	$(1,118,305)
Net loss per share, as reported and amended	$ 0.04	$ 0.01
Pro forma net loss per share	$ 0.05	$ 0.02

Options to non-employees are accounted for in accordance with FASB's Emerging Issues Task Force (EITF) Issue 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Accordingly, compensation is recognized when goods or services are received and is measured using the Black-Scholes valuation model. The Black-Scholes model requires management to make assumptions regarding the fair value of the options at the date of grant and the expected life of the options.

B. NEW ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections--A replacement of APB Opinion No. 20 and FASB Statement No. 3". The statement requires that retrospective application of a change in accounting principle be limited to the direct effects of the change and is part of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board (IASB) toward development of a single set of high-quality accounting standards. The Company does not believe that SFAS No. 154 will have a material impact on its results of operations or cash flows.

15

In March 2005, the FASB issued FIN No. 47, "Accounting for Conditional Asset Retirement Obligations - an Interpretation of FASB Statement No. 143". The interpretation clarifies terms used in FASB Statement No. 143 and is effective no later than the end of fiscal years ending after December

15, 2005. The Company does not believe that FIN No. 47 will have a material impact on its results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, "Hybrid Instruments". The statement amends SFAS No. 133 and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The statement also resolves issues addressed in Statement 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." The statement: a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and e) amends Statement 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. CEL-SCI does not believe that SFAS No. 155 will have a material impact on its results of operations or cash flows.

FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140". The statement requires: 1) an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value; 3) permits an entity to choose either the amortization method or the fair value measurement method for measuring the asset or liability; 4) permits a one-time reclassification of available-for-sale securities to trading securities; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position. Since the Company has no servicing assets or servicing liabilities, the Company believes that there will be no impact on its results of operations or cash flows. The statement is effective for fiscal years beginning after September 15, 2006.

C. STOCKHOLDERS' EQUITY

During the nine months ended June 30, 2006, the Company issued stock and stock warrants for services to a nonemployee with a fair value of $605,951. During the nine months ended June 30, 2005, the Company issued stock or stock options for services to a nonemployee with a fair value of $7,972.

16

D. FINANCING TRANSACTIONS

In July and September 2002, the Company sold convertible notes, plus Series G warrants, to a group of private investors. As of the year ended September 30, 2003, all of the notes had been converted into common stock. The Series G warrants allow the holders to purchase up to 900,000 shares of the Company's common stock. As of June 30, 2006, all warrants had been exercised. In addition, in January 2003, the Company sold convertible notes, plus Series H warrants to purchase 1,100,000 shares of common stock, to a group of private investors. As of October 2, 2003, all of the Series H notes had been converted into common stock. As of June 30, 2006, all Series H warrants had been exercised. Both the Series G and Series H warrants were exercised in a cashless transaction.

On December 1, 2003, the Company sold 2,994,964 shares of its common stock to a group of private institutional investors for approximately $2,550,000, or $0.85 per share. As part of this transaction, the investors in the private offering received warrants which allow the investors to purchase 991,003 shares of the Company's common stock at a price of $1.32 per share at any time prior to December 1, 2006. As of June 30, 2006, all warrants remain outstanding.

In connection with this private placement, the Company was required to file a registration statement by December 31, 2003. The registration statement was to have been declared effective by the SEC no later than March 30, 2004. If the registration statement was declared effective later than March 30, 2004, the Company was subject to paying liquidated damages to the investors. In accordance with this agreement, the Company recorded an expense of $76,499 during the year ended September 30, 2004.

On May 4, 2004, the Company announced the completion of an offering of 6,402,439 shares of registered common stock at $0.82 per share to one institutional investor. This sale resulted in gross proceeds of $5.25 million and associated costs of $498,452. The stock was offered pursuant to an existing shelf registration statement and Wachovia Capital Markets, LLC acted as the placement agent for the offering. The Company used the proceeds of the offering to advance the clinical development of Multikine for the treatment of cancer. In addition, 76,642 warrants were issued to Wachovia at a price of $1.37 and the warrants expire May 4, 2009. The warrants were valued using the Black-Scholes valuation method and an expense of $38,127 was recorded to additional paid-in capital as a cost of equity related transaction during the year ended September 30, 2004.

On July 18, 2005, CEL-SCI sold 1,250,000 shares of its common stock and 375,000 warrants to one investor for $500,000. Each warrant entitles the holder to purchase one share of CEL-SCI's common stock at a price of $0.65 per share at any time prior to July 18, 2009. The shares of common stock and warrants are "restricted" securities as defined in Rule 144 of the Securities and Exchange Commission. The warrants were valued at $155,671.

17

In order to provide a possible source of funding for CEL-SCI's current activities and for the development of its current and planned products, CEL-SCI entered into an equity line of credit agreement with Jena Holdings LLC on October 31, 2005.

Under the equity line of credit agreement, Jena Holdings LLC has agreed to provide CEL-SCI with up to $5,000,000 of funding for a two year period which will begin on the date that a registration statement filed by CEL-SCI to register the shares to be sold to Jena Holdings LLC is declared effective by the SEC. During this two year period, CEL-SCI may request a drawdown under the equity line of credit by selling shares of its common stock to Jena Holdings LLC, and Jena Holdings LLC will be obligated to purchase the shares. The minimum amount CEL-SCI can draw down at any one time is $100,000, and the maximum amount CEL-SCI can draw down at any one time will be determined at the time of the drawdown request using a formula contained in the equity line of credit agreement. CEL-SCI may request a drawdown once every 22 trading days, although CEL-SCI is under no obligation to request any drawdowns under the equity line of credit.

During the 22 trading days following a drawdown request, CEL-SCI will calculate the amount of shares it will sell to Jena Holdings LLC and the purchase price per share. The purchase price per share of common stock will be based on the daily volume weighted average price of CEL-SCI's common stock during each of the 22 trading days immediately following the drawdown date, less a discount of 11%. As consideration for extending the equity line of credit, CEL-SCI granted Jena Holdings LLC warrants to purchase 271,370 shares of common stock at a price of $0.55 per share at any time prior to October 24, 2010. CEL-SCI will be registering the shares of common stock issuable to Jena Holdings under the equity line of credit, as well as 271,370 shares underlying the warrants that CEL-SCI granted to Jena Holdings LLC. During the three-month period ended December 31, 2005, the Company made drawdowns on a previous equity line of credit totaling $677,727, selling 1,419,446 shares of common stock. This equity line of credit expired on December 29, 2005.

On February 9, 2006, CEL-SCI sold 2,500,000 unregistered shares of its common stock and 750,000 unregistered warrants to one investor for $1,000,000. Each warrant entitles the holder to purchase one share of CEL-SCI's common stock at a price of $0.56 per share at any time prior to February 9, 2011. The warrants were valued at $238,986. In addition, 441,176 warrants issued to the investor in December 2003 were repriced and extended for one year. The revaluing of the warrants was valued at $76,122. In addition, on May 18, 2006, 800,000 unregistered warrants were issued to the same investor at a strike price of $0.82. These warrants were valued using the Black Scholes method at $416,921 (73% volatility, 5 years expected life, 4.96% discount rate) and expire in 5 years. These warrants were recorded in equity.

On April 17, 2006, 800,000 unregistered warrants were issued to an investor with a strike price of $1.25 per share. These warrants were valued at $460,920 using the Black Scholes method (77% volatility, 2.17 years expected life, 4.91% discount rate) and expire in August of 2008. They were recorded in equity. An additional 100,000 unregistered warrants were issued to an investor relations consultant on April 12, 2006. These warrants were valued at $79,976 using the Black Scholes method (77% volatility, 3 years expected life, 4.90% discount rate) and expire in April 2009. They were recorded as general and administrative expense. A public relations and corporate presentation consultant group was issued 375,000 unregistered shares of CEL-SCI Corporation common stock and 375,000 unregistered warrants to purchase additional shares at $0.73. These warrants will be expensed to general and administrative expense over the one-year contract period. These warrants expire March 31, 2007 and were valued at $58,005 using the Black Scholes method (77% volatility, 1 year expected life, 4.86% discount rate). Also during the quarter ended June 30, 2006, 1,300,000 warrants were exercised, resulting in an increase in equity of $665,000. Cashless exercise of 882,222 warrants also occurred during the quarter ended June 30, 2006.

E. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the Company's September 30, 2004 consolidated financial statements, the Company determined that it had erroneously accounted for certain financial instruments, including free-standing and embedded derivatives within such instruments, issued by the Company from fiscal year 1992 through November 2003. Specifically, the instruments erroneously accounted for were: the Series E Preferred Stock, the Cambrex Convertible Note Payable, Series F, G and H Convertible Debt, the equity line of credit agreements, as well as Series I and J warrants and various other warrants. The Company has concluded that these instruments were either freestanding derivative instruments in their entirely, or contained embedded derivatives, and should have been accounted for under SFAS No. 133 and EITF 00-19, as well as related interpretations of these standards. All such derivatives were required to be recognized as either assets or liabilities in the statement of financial position and measured at fair value in the statement of operations. At June 30, 2006, the only remaining instrument that needs this valuation is the Series E warrants, which expire on August 16, 2006. For a further discussion of this restatement and an assessment of each instrument, please see the Company's September 30, 2005 10-K, footnote 2.

F. OPERATIONS AND FINANCING

The Company has incurred significant costs since its inception in connection with the acquisition of an exclusive worldwide license to certain patented and unpatented proprietary technology and know-how relating to the human immunological defense system, patent applications, research and development, administrative costs, construction of laboratory facilities and clinical trials. The Company has funded such costs with proceeds realized from the public and private sale of its common and preferred stock. The Company will be required to raise additional capital or find additional long-term financing in order to continue with its research efforts. To date, the Company has not generated any revenue from

product sales. The ability of the Company to complete the necessary clinical trials and obtain FDA approval for the sale of products to be developed on a commercial basis is uncertain. The Company plans to seek continued funding of the Company's development by raising additional capital. It is the opinion of management that sufficient funds will be available from external financing and additional capital and/or expenditure reductions in order to meet the Company's liabilities and commitments as they come due during fiscal years 2006 and 2007. Ultimately, the Company must complete the development of its products, obtain the appropriate regulatory approvals and obtain sufficient revenues to support its cost structure.

G. SUBSEQUENT EVENT

CONVERTIBLE DEBT INSTRUMENT AND WARRANT LIABILITIES

In August 2006, the Company issued $8,300,000 million in aggregate principal amount of convertible notes (the "Notes") together with warrants to purchase 4,825,581 shares of the Company's common stock (the "Warrants"). Additionally, in connection with issuance of the Notes and Warrants, the placement agent received a fee of $498,000 and 386,047 fully vested warrants (the "Placement Agent Warrants") to purchase shares of the Company's common stock. Net proceeds were approximately $7.75 million, net of approximately $550,000 in direct transaction costs, including the placement agent fee.

Features of the Convertible Debt Instrument and Warrants

The Notes are convertible into 9,651,163 shares of the Company's common stock at the option of the holder at any time prior to maturity at a conversion price of $0.86 per share, subject to adjustment for certain events described below. The Warrants are exercisable over a five-year period from February 4, 2007 through February 4, 2012 at $0.95 per share.

The Notes bear interest at the greater of 8% or LIBOR plus 300 basis points, and are required to be repaid in thirty equal monthly installments beginning in March 7, 2007 and continuing through September 7, 2010. Interest is payable quarterly beginning in September 30, 2006. Each payment of principal and accrued interest may be settled in cash or in shares of common stock at the option of the Company. The number of shares deliverable under the share-settlement option is determined based on the lower of (a) $0.86 per share, as adjusted pursuant to the terms of the Notes or (b) 90% applied to the arithmetic average of the volume-weighted-average trading prices for the twenty day period immediately preceding each share settlement.

In the event of default, as defined in the Notes, all amounts due and outstanding thereunder shall become, at the option of the holders, immediately due and payable in cash, in an amount that equals the sum of (i) the greater of (a) 115% of the outstanding balance plus all accrued and unpaid interest or (b) 115% of the arithmetic average of the volume-weighted-average trading prices for the five day period immediately preceding notice requiring repayment, and (ii)

all other amounts due in connection with the Notes and associated agreements. Additionally, if a certain breach occurs under a related registration rights agreement, the Company will be required to pay, as liquidated damages, 1.5% per month of the outstanding balance of the Notes, until such default is cured (or 2% per month if such breach occurs after 180 days following closing of the transaction). Events of default include circumstances in which the Company either fails to have a registration statement for shares into which the Notes can be converted be declared effective by the SEC within 120 days of the issuance date of the Notes or that the registration statement's effectiveness lapses for any reason.

The Company may not make payments in shares if such payments would result in the cumulative issuance of shares of its common stock exceeding 19.999% of the shares outstanding on the day immediately preceding the issuance date of the Notes (the "Issuable Maximum"), unless prior approval is given by vote of at least a majority of the shares. The Company cannot determine at this time if it will be required to issue shares in excess of the Issuable Maximum because the number of shares issuable as payments of principal and interest under the Notes will depend on future share prices. As required by the transaction documents for these securities, the Company is seeking shareholder approval for the issuance of in excess of the Issuable Maximum, even though the Issuable Maximum may not be exceeded.

The conversion price of the Notes and exercise price of the Warrants are each subject to certain anti-dilution protections, including for stock splits, stock dividends, change in control events and dilutive issuances of common stock or common stock equivalents, such as stock options, at an effective price per share that is lower than the then conversion price. In the event of a dilutive issuance of common stock or common stock equivalents, the conversion price and exercise price would be reduced to equal the lower per share price of the subsequent transaction.

Accounting for the Convertible Debt Instrument and Warrants

The Company will account for the Warrants as derivative liabilities in accordance with SFAS No. 133, "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock." The Company has determined that the Notes constitute a hybrid instrument that have the characteristics of a debt host contract containing several embedded derivative features that would require bifurcation and separate accounting as a derivative instrument pursuant to the provisions of FAS 133. As permitted by SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments--an amendment of FASB Statements No. 133 and 140", the Company will irrevocably electe to initially and subsequently measure the Notes in their entirety at fair value with changes in fair value recognized as either a gain or loss.

Upon issuance of the Notes and Warrants, the Company will allocate proceeds received to the Notes and the Warrants on a relative fair value basis. The Notes will then be immediately marked to fair value and a charge to change in fair value of convertible debt instrument and warrant liabilities will be recorded.

21

The debt discount in the Notes resulting from the allocation of proceeds will be amortized to interest expense using the effective interest method over the expected term of the Notes.

Upon issuance, the Warrants and Placement Agent Warrants did not meet the requirements for equity classification set forth in EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," because such warrants (a) must be settled in registered shares and (b) are subject to substantial liquidated damages if the Company is unable to maintain the effectiveness of the resale registration of the shares. Therefore such warrants must be accounted for as freestanding derivative instruments pursuant to the provisions of FAS 133. Accordingly, the Company will allocate a portion of the initial proceeds to the Warrants and immediately mark them to fair value which will result in a derivative liability and a charge to change in fair value of convertible debt instrument and warrant liabilities.

Transaction costs will be expensed immediately as part of fair value adjustments required in connection with the convertible debt instrument and the Company's irrevocable election to initially and subsequently measure the Notes at fair value with changes in fair value recognized in earnings.

22

CEL-SCI CORPORATION

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

Liquidity and Capital Resources

The Company has had only limited revenues from operations since its inception in March 1983. The Company has relied upon proceeds realized from the public and private sale of its Common Stock and convertible notes as well as short-term borrowings to meet its funding requirements. Funds raised by the Company have been expended primarily in connection with the acquisition of exclusive rights to certain patented and unpatented proprietary technology and know-how relating to the human immunological defense system, the funding of Viral Technologies, Inc.'s (VTI) research and development program (inactive since 2000), patent applications, the repayment of debt, the continuation of Company-sponsored research and development and administrative costs, and the construction of laboratory facilities. Inasmuch as the Company does not anticipate realizing significant revenues until such time as it enters into licensing arrangements regarding its technology and know-how or until such time it receives permission to sell its product (which could take a number of years), the Company has been dependent upon short-term borrowings and the proceeds from the sale of its securities to meet all of its liquidity and capital resource requirements.

In June 2000, the Company entered into an agreement with Cambrex Bio Science, Inc. ("Cambrex") whereby Cambrex agreed to provide the Company with a facility which allows the Company to manufacture Multikine in accordance with the Good Manufacturing Practices regulations of the FDA for periodic manufacturing campaigns. Company personnel will staff this facility. This agreement runs until December 31, 2006.

In July and September 2002, the Company sold convertible notes, plus 900,000 Series G warrants, to a group of private investors. By June 2, 2003, all of the notes had been converted into common stock. As of June 30, 2006, all of the warrants had been exercised. In addition, in January 2003, the Company sold convertible notes, plus Series H warrants to purchase 1,100,000 shares of common stock, to a group of private investors. By October 2, 2003, all of the Series H notes had been converted into common stock. As of June 30, 2006, all remaining warrants had been exercised in a cashless exercise.

On December 1, 2003, the Company sold 2,994,964 shares of its common stock to a group of private institutional investors for approximately $2,550,000, or $0.85 per share. As part of this transaction, the investors in the private offering received warrants which allow the investors to purchase approximately 900,000 shares of the Company's common stock at a price of $1.32 per share at any time prior to December 1, 2006. As of June 30, 2006, all warrants remain outstanding.

On May 4, 2004, the Company announced the completion of an offering of 6,402,439 shares of registered common stock at $0.82 per share to one institutional investor. This sale resulted in gross proceeds of $5.25 million and associated costs of $498,452. The stock was offered pursuant to an existing shelf registration statement and Wachovia Capital Markets, LLC acted as the placement

agent for the offering. The Company intends to use the proceeds of the offering to advance the clinical development of Multikine for the treatment of cancer. In addition, 76,642 warrants were issued to Wachovia at a price of $1.37 and the warrants expire May 4, 2009. The warrants were valued using the Black-Scholes valuation method and an expense of $38,127 was recorded to additional paid-in capital as a cost of equity related transaction during the fiscal year ended September 30, 2004.

In order to provide a possible source of funding for CEL-SCI's current activities and for the development of its current and planned products, CEL-SCI entered into an equity line of credit agreement with Jena Holdings LLC on October 31, 2005.

Under the equity line of credit agreement, Jena Holdings LLC has agreed to provide CEL-SCI with up to $5,000,000 of funding for a two year period which will begin on the date that a registration statement filed by CEL-SCI to register the shares to be sold to Jena Holdings LLC is declared effective by the SEC. During this two year period, CEL-SCI may request a drawdown under the equity line of credit by selling shares of its common stock to Jena Holdings LLC, and Jena Holdings LLC will be obligated to purchase the shares. The minimum amount CEL-SCI can draw down at any one time is $100,000, and the maximum amount CEL-SCI can draw down at any one time will be determined at the time of the drawdown request using a formula contained in the equity line of credit agreement. CEL-SCI may request a drawdown once every 22 trading days, although CEL-SCI is under no obligation to request any drawdowns under the equity line of credit.

During the 22 trading days following a drawdown request, CEL-SCI will calculate the amount of shares it will sell to Jena Holdings LLC and the purchase price per share. The purchase price per share of common stock will be based on the daily volume weighted average price of CEL-SCI's common stock during each of the 22 trading days immediately following the drawdown date, less a discount of 11%. As consideration for extending the equity line of credit, CEL-SCI granted Jena Holdings LLC warrants to purchase 271,370 shares of common stock at a price of $0.55 per share at any time prior to October 24, 2010. CEL-SCI will be registering the shares of common stock issuable to Jena Holdings under the equity line of credit, as well as 271,370 shares underlying the warrants that CEL-SCI granted to Jena Holdings LLC. During the three-month period ended December 31, 2005, the Company made drawdowns on a previous equity line of credit totaling $677,727, selling 1,419,446 shares of common stock. This equity line of credit expired on December 29, 2005.

Subsequent to the issuance of the Company's September 30, 2004 consolidated financial statements, the Company determined that it had erroneously accounted for certain financial instruments, including free-standing and embedded derivatives within such instruments, issued by the Company from fiscal year 1992 through November 2003. Specifically, the instruments erroneously accounted for were: the Series E Preferred Stock, the Cambrex Convertible Note Payable, Series F, G and H Convertible Debt, the equity line of credit agreements, as well as Series I and J warrants and various other warrants. The Company has concluded that these instruments were either freestanding derivative instruments in their entirety, or contained embedded derivatives, and should have been accounted for under SFAS No. 133 and EITF 00-19, as well as related interpretations of these standards. All such derivatives were required to be recognized as either assets or liabilities in the statement of financial position and measured at fair value in the statement of operations. At December 31, 2005, the only remaining

24

instrument that needs this valuation is the Series E warrants, which expire on August 16, 2006. For a further discussion of this restatement and an assessment of each instrument, please see the Company's September 30, 2005 10-K, footnote 2.

On February 9, 2006, CEL-SCI sold 2,500,000 shares of its common stock and 750,000 warrants to one investor for $1,000,000. Each warrant entitles the holder to purchase one share of CEL-SCI's common stock at a price of $0.56 per share at any time prior to February 9, 2011. The warrants were valued at $238,986. In addition, 441,176 warrants previously issued to the investor were repriced and extended for one year. The revaluing of the warrants was valued at $76,122. In addition, on May 18, 2006, 800,000 unregistered warrants were issued to the same investor at a strike price of $0.82. These warrants were valued using the Black Scholes method at $416,921 and expire in 5 years.

On April 17, 2006, 800,000 unregistered warrants were issued to an investor with a strike price of $1.25 per share. These warrants were valued at $460,920 using the Black Scholes method and expire in August of 2008. An additional 100,000 unregistered warrants were issued to a group of consultants on April 12, 2006. These warrants were valued at $79,976 using the Black Scholes method and expire in April 2009. Another consultant group was issued 375,000 unregistered shares of CEL-SCI Corporation common stock and 375,000 unregistered warrants to purchase additional shares at $0.73. These warrants expire March 31, 2007 and were valued at $58,005 using the Black Scholes method.

Results of Operations

"Grant revenues and other" decreased by $117,025 during the nine months ended June 30, 2006, compared to the same period of the previous year, due to the winding down of the work funded by the grants in the summer of 2005. The Company is continuing to apply for grants to support its work. Grant revenues and others remained about the same for the three months ended June 30, 2006 as it was for the three months ended June 30, 2005.

During the nine-month period ended June 30, 2006, research and development expenses decreased by $533,201. During the three-month period ended June 30, 2006, research and development expenses decreased by $108,956. In the previous year, expenses were higher because the Company was doing work in support of the Phase III application for Multikine.

During the three and nine-month periods ended June 30, 2006, general and administrative expenses increased by $428,751 and $816,502, respectively. This change was due to: 1) costs related to the restatement of the financial statements ($185,800 and $318,750, respectively); 2) an increase in public relations and corporate presentation expenses ($239,850 and $408,850, respectively); and 3) the employee stock option expense required by SFAS 123R ($39,100 and $142,700, respectively).

Interest income during the nine months ended June, 2006 decreased by $10,106. The decrease was due to a decline in the balances in the interest bearing accounts. Interest income during the three months ended June 30, 2006 decreased by $1,214 for the same reason.

The gain on derivative instruments of $13,130 for the nine months ended June 30, 2006, compared to a loss of $211,715 for the same period of 2005 was the result of reclassification to equity of all derivative instruments except the Series E warrants on December 27, 2005. The gain on derivative instruments of $1,615

25

during the three months ended June 30, 2006 compared to a gain of $319,570 for the same period in 2005 was the result of the reclassification to equity of all derivative instruments except the Series E warrants.

Research and Development Expenses

During the nine and three-month periods ended June 30, 2006 and 2005, the Company's research and development efforts involved Multikine and L.E.A.P.S.(TM) The table below shows the research and development expenses associated with each project during the six and three-month periods.

	Nine Months Ended June 30,		Three Months Ended June 30,	
	2006	2005	2006	2005
MULTIKINE	$1,120,673	$1,558,633	$367,741	$462,391
L.E.A.P.S.	170,170	265,411	61,356	75,662

TOTAL	$1,290,843	$1,824,044	$ 429,097	$ 538,053
	==========	==========	=========	=========

In August 2005, the Canadian regulatory agency, the Biologics and Genetic Therapies Directorate, concurred with the initiation of a global Phase III clinical trial in head and neck cancer patients using Multikine. On January 4, 2005, the Company announced that it had submitted a Phase III clinical trial protocol to the U.S. Food and Drug Administration ("FDA") for the use of its investigational immunotherapy drug Multikine in the treatment of advanced primary squamous cell carcinoma of the oral cavity. Additional information in support of and to provide the rationale for the Phase III trial (final reports of clinical trials conducted with Multikine to date and manufacturing and testing information) was included with this submission. The Company met with FDA in April of 2005 and in October of 2005 to discuss the Phase III trial design and manufacturing issues. The meetings were very useful and productive, and were the start of what has been a continuing dialogue with the Agency on these matters. It is clear that the FDA recognizes the need for new and improved therapies for head and neck cancer patients, and it appears to be amenable to new approaches. A number of specific technical aspects of the Company's development plans were discussed, and the FDA made several suggestions as to how the plans could be improved. The Company provided additional information to the FDA in 2005 following the two meetings, and had a recent (July 2006) discussion with them regarding this information. The Company is unable to estimate the future costs of research and clinical trials involving Multikine since the Company has not yet reached final agreement with the FDA on all issues or the design of future clinical trials. Until agreements are reached on these issues the Company will not be able to price any future trials with clinical trial organizations.

As of June 30, 2006 the Company was involved in a number of pre-clinical studies with respect to its L.E.A.P.S. technology. As with Multikine, the Company does not know what obstacles it will encounter in future pre-clinical and clinical studies involving its L.E.A.P.S. technology. Consequently, the Company cannot predict with any certainty the funds required for future research and clinical trials and the timing of future research and development projects. In April 2006

26

the Company filed a provisional U.S. patent application covering CEL-1000 for the prevention/treatment of bird flu and/or as an adjuvant to be included in a bird flu vaccine.

Clinical and other studies necessary to obtain regulatory approval of a new drug involve significant costs and require several years to complete. The extent of the Company's clinical trials and research programs are primarily based upon the amount of capital available to the Company and the extent to which the Company has received regulatory approvals for clinical trials. The inability of the Company to conduct clinical trials or research, whether due to a lack of capital or regulatory approval, will prevent the Company from completing the studies and research required to obtain regulatory approval for any products which the Company is developing. Without regulatory approval, the Company will be unable to sell any of its products.

Since all of the Company's projects are under development, the Company cannot predict when it will be able to generate any revenue from the sale of any of its products.

Critical Accounting Policies - The Company's significant accounting policies are more fully described in Note A to the financial statements. However certain accounting policies are particularly important to the portrayal of financial position and results of operations and require the application of significant judgments by management. As a result, the condensed consolidated financial statements are subject to an inherent degree of uncertainty. In applying those policies, management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. These estimates are based on the Company's historical experience, terms of existing contracts, observance of trends in the industry and information available from outside sources, as appropriate. Our significant accounting policies include:

Patents - Patent expenditures are capitalized and amortized using the straight-line method over 17 years. In the event changes in technology or other circumstances impair the value or life of the patent, appropriate adjustment in the asset value and period of amortization is made. An impairment loss is recognized when estimated future undiscounted cash flows expected to result from the use of the asset, and from disposition, is less than the carrying value of the asset. The amount of the impairment loss would be the difference between the estimated fair value of the asset and its carrying value.

Stock Options and Warrants - In October 1996, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). This statement encourages but does not require companies to account for employee stock compensation awards based on their estimated fair value at the grant date with the resulting cost charged to operations. The Company had elected to continue to account for its employee stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Options to non-employees are accounted for in accordance with FASB's Emerging Issues Task Force (EITF) Issue 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Accordingly, compensation is recognized when goods or services are received and is measured using the Black-Scholes valuation model. The Black-Scholes model requires management to make assumptions regarding the fair value of the options at the date of grant and the expected life of the options. The Company determines the fair value of the employee compensation using the Black Scholes method of valuation. Using the modified prospective transition method of adoption, CEL-SCI reflects compensation expense in the financial statements beginning October 1, 2005. The modified prospective transition method does not require restatement of prior periods to reflect the impact of SFAS No. 123R. As

27

such, compensation expense will be recognized for awards that were granted, modified, repurchased or cancelled on or after October 1, 2005 as well as for the portion of awards previously granted that vested during the period ended June 30, 2006. For the nine months ended June 30, 2006, the Company recorded $142,690 in general and administrative expense for the cost of employee options. The Company determines the fair value of the employee compensation using the Black Scholes method of valuation. No corresponding expense was recorded for the nine months ended June 30, 2005 because the statement did not require the cost to be recorded in that period. Asset Valuations and Review for Potential Impairments - The Company reviews its fixed assets every fiscal quarter. This review requires that the Company make assumptions regarding the value of these assets and the changes in circumstances that would affect the carrying value of these assets. If such analysis indicates that a possible impairment may exist, the Company is then required to estimate the fair value of the asset and, as deemed appropriate, expense all or a portion of the asset. The determination of fair value includes numerous uncertainties, such as the impact of competition on future value. The Company believes that it has made reasonable estimates and judgments in determining whether our long-lived assets have been impaired;

however, if there is a material change in the assumptions used in our determination of fair values or if there is a material change in economic conditions or circumstances influencing fair value, the Company could be required to recognize certain impairment charges in the future.

Prepaid Expenses and Laboratory Supplies--The majority of prepaid expenses consist of bulk purchases of laboratory supplies used on a daily basis in the lab and items that will be used for future production. The items in prepaid expenses are expensed when used in production or daily activity as R&D expenses. These items are disposables and consumables and can be used for both the manufacturing of Multikine for clinical studies and in the laboratory for quality control and bioassay use. They can be used in training, testing and daily laboratory activities. Other prepaid expenses are payments for services over a long period and are expensed over the time period for which the service is rendered.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Market risk is the potential change in an instrument's value caused by, for example, fluctuations in interest and currency exchange rates. The Company has only one derivative financial instrument at June 30, 2006, the Series E warrants, which will expire in August of 2006. Additionally, the Company is not exposed to interest rate risks due to the fact the Company has no outstanding debt as of June 30, 2006. Further, there is no exposure to risks associated with foreign exchange rate changes because none of the operations of the Company are transacted in a foreign currency. The interest rate risk in investments is considered immaterial due to the fact that all investments have maturities of 3 months or less.

28

Item 4. CONTROLS AND PROCEDURES

Geert Kersten, CEL-SCI's Chief Executive and Financial Officer, has evaluated the effectiveness of CEL-SCI's disclosure controls and procedures as of June 30, 2006, and in his opinion CEL-SCI's disclosure controls and procedures ensure that material information relating to CEL-SCI, including CEL-SCI's consolidated subsidiary, is made known to him by others within those entities, particularly during the period in which this report is being prepared, so as to allow timely decisions regarding required disclosure. To the knowledge of Mr. Kersten there have been no significant changes in CEL-SCI's internal controls or in other factors that could significantly affect CEL-SCI's internal controls subsequent to the date of evaluation, and as a result, no corrective actions with regard to significant deficiencies or material weakness in CEL-SCI's internal controls were required with the exception of accounting for certain derivatives under FAS 133 and EITF 00-19. Subsequent to September 30, 2005, CEL-SCI adopted additional accounting policies and internal controls to address the issues raised by the restatement of previously issued financial statements for the years ended September 30, 2004 and 2003.

29

PART II

Item 2. Changes in Securities and Use of Proceeds

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits

Number	Exhibit
31	Rule 13a-14(a) Certifications
32	Section 1350 Certifications

(b) Reports on Form 8-K

The Company filed no reports on Schedule 8-K during the quarter ended June 30, 2006.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CEL-SCI CORPORATION

Date: August 14, 2006

/s/ Geert Kersten

Geert Kersten
Chief Executive Officer*

*Also signing in the capacity of the Chief Accounting Officer and Principal Financial Officer