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CEL SCI CORP
Form 10-Q/A
July 18, 2006

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

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended March 31, 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

State or other jurisdiction
incorporation

84-0916344

(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 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

Class of Stock	No. Shares Outstanding	Date
-----	-----	----
Common	80,745,847	May 15, 2006

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CEL-SCI CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED MARCH 31, 2006 AND 2005
(unaudited)

Item 1. FINANCIAL STATEMENTS

CEL-SCI CORPORATION

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CONDENSED
CONSOLIDATED BALANCE SHEETS

(unaudited)

ASSETS	March 31, 2006	September 30, 2005

CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,736,813	\$ 1,957,614
Interest and other receivables	21,936	21,164
Prepaid expenses and laboratory supplies	440,144	432,652
Deferred financing costs	5,000	--
	-----	-----
Total current assets	2,203,893	2,411,430
RESEARCH AND OFFICE EQUIPMENT-		
Less accumulated depreciation of \$1,738,288 and \$1,690,788	134,635	181,541
PATENT COSTS- less accumulated amortization of \$855,448 and \$816,169	518,059	484,553
DEPOSITS	14,828	14,828
	-----	-----
TOTAL ASSETS	\$ 2,871,415	\$3,092,352
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 197,254	\$ 74,354
Accrued expenses	85,221	74,619
Due to employees	22,692	22,880
Derivative instruments - current portion	3,110	1,280
	-----	-----
Total current liabilities	308,277	173,133
Derivative instruments - noncurrent portion	--	811,180
Deposits held	3,000	3,000
	-----	-----
Total liabilities	311,277	987,313
STOCKHOLDERS' EQUITY		
Common stock, \$.01 par value; authorized, 200,000,000 shares; issued and outstanding, 79,059,181 and 74,494,206 shares at March 31, 2006 and September 30, 2005, respectively	790,592	744,942
Additional paid-in capital	103,096,943	100,359,296
Accumulated deficit	(101,327,397)	(98,999,199)
	-----	-----
Total stockholders' equity	2,560,138	2,105,039
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,871,415	\$ 3,092,352
	=====	=====

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF
OPERATIONS

(unaudited)

	Six Months Ended March 31,	
	2006	2005

REVENUES:		
Grant revenue and other	\$ 66,662	\$ 185,292

EXPENSES:		
Research and development excluding depreciation of \$37,021 and \$63,099 included below	861,746	1,285,991
Depreciation and amortization	87,425	109,768
General and administrative	1,480,606	1,092,855

Total Operating Expenses	2,429,777	2,488,614

NET OPERATING LOSS	(2,363,115)	(2,303,322)
GAIN (LOSS) ON DERIVATIVE INSTRUMENTS	11,515	(107,855)
INTEREST INCOME	23,402	32,294

NET LOSS	\$ (2,328,198)	\$ (2,378,883)
	=====	
NET LOSS PER COMMON SHARE (BASIC)	\$ (0.03)	\$ (0.03)
	=====	
NET LOSS PER COMMON SHARE (DILUTED)	\$ (0.03)	\$ (0.03)
	=====	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	76,677,015	72,232,732
	=====	

See notes to condensed consolidated financial statements.

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CEL-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF
OPERATIONS

(unaudited)

	Three Months Ended March 31,	
	2006	2005

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REVENUES:		
Grant revenue and other	\$ 36,815	\$ 109,785
	-----	-----
EXPENSES:		
Research and development, excluding depreciation of \$18,511 and \$29,447 included below	426,857	584,887
Depreciation and amortization	43,635	53,089
General and administrative	907,570	560,641
	-----	-----
Total Operating Expenses	1,378,062	1,198,617
	-----	-----
NET OPERATING LOSS	(1,341,247)	(1,088,832)
LOSS ON DERIVATIVE INSTRUMENTS	(1,822)	(75,082)
INTEREST INCOME	11,998	14,474
	-----	-----
NET LOSS	\$ (1,331,071)	\$ (1,149,440)
	=====	=====
NET LOSS PER COMMON SHARE (BASIC)	\$ (0.02)	\$ (0.02)
	=====	=====
NET LOSS PER COMMON SHARE (DILUTED)	\$ (0.02)	\$ (0.02)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	78,392,835	72,287,847
	=====	=====

See notes to condensed consolidated financial statements.

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CEL-SCI CORPORATION

CONDENSED
CONSOLIDATED STATEMENTS OF CASH FLOW

(unaudited)

	Six Months Ended March 31,	
	2006	2005

CASH FLOWS FROM OPERATING ACTIVITIES:		
NET LOSS	\$ (2,328,198)	\$ (2,378,883)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	87,425	109,768
Issuance of common stock and stock options		

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for services	144,718	7,972
Common stock contributed to 401(k) plan	43,727	40,251
Decrease in unearned compensation	--	7,766
Impairment loss on abandonment of patents	--	3,716
Employee option cost	103,596	--
Impairment loss on retired equipment	645	267
(Gain) loss on derivative instruments	(11,515)	107,855
Increase in receivables	(772)	(24,461)
(Increase) decrease in prepaid expenses	(7,492)	85,301
Increase in deferred financing costs	(5,000)	--
Increase in accrued expenses	10,602	23,577
(Decrease) increase in amount due to employees	(188)	21,848
Increase (decrease) in accounts payable	86,241	(29,525)
	-----	-----
NET CASH USED FOR OPERATING ACTIVITIES	(1,876,211)	(2,024,548)
	-----	-----
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Purchase of equipment	(1,885)	(65,368)
Patent costs	(36,126)	(31,014)
	-----	-----
NET CASH USED FOR INVESTING ACTIVITIES	(38,011)	(96,382)
	-----	-----
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Private placement proceeds	1,000,000	--
Drawdown on equity line (net)	677,727	--
Proceeds from exercise of stock options	15,694	30,649
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,693,421	30,649
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(220,801)	(2,090,281)
CASH AND CASH EQUIVALENTS:		
Beginning of period	1,957,614	4,263,631
	-----	-----
End of period	\$ 1,736,813	2,173,350
	=====	=====

(continued)

See notes to condensed consolidated financial statements.

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CEL-SCI CORPORATION

 CONDENSED
 CONSOLIDATED STATEMENTS OF CASH FLOW

 (unaudited)
 (continued)

Six Months Ended
 March 31,
 2006 2005

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SUPPLEMENTAL INFORMATION ON NONCASH TRANSACTIONS:

Equipment costs included in accounts payable:		
Increase in accounts payable	\$ --	\$ 367
Increase in equipment	--	(367)
	-----	-----
	\$ --	\$ --
	=====	=====
Patent costs included in accounts payable:		
Increase in accounts payable	\$ 36,659	\$ 4,440
Increase in patent costs	(36,659)	(4,440)
	-----	-----
	\$ --	\$ --
	=====	=====
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:		
Additional paid-in capital	\$ 315,108	\$ --
Additional paid-in capital	(315,108)	--
	-----	-----
	\$ --	\$ --
	=====	=====

concluded

See notes to condensed consolidated financial statements.

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CEL-SCI CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED MARCH 31, 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

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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 March 31, 2006 and the results of operations for the three and six-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 six-month periods ended March 31, 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 six-month periods ended March 31, 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 MultikineR, 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

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CEL-SCI CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED MARCH 31, 2006 AND 2005
(unaudited)

loss would be the difference between the estimated fair value of the asset and its carrying value. During the six months ended March 31, 2006 and

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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 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 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

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elected to continue to account for its employee stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board

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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 March 31, 2006. For the six months ended March 31, 2006, the Company recorded \$103,596 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 six-month period ended March 31, 2006. Options are granted with an exercise price equal to the closing bid price of the Company's stock on the date 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 six-months ended March 31, 2006.

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 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;

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- (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;

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CEL-SCI CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED MARCH 31, 2006 AND 2005
(unaudited)

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 six months ended March 31, 2006.

Non-Qualified Stock Option Plan

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 Price
-----	-----	-----	-----	-----	-----

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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

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CEL-SCI CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED MARCH 31, 2006 AND 2005
(unaudited)

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	-				-	

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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		-	33,333	1.13
Granted	-				-	
Exercised	-				-	
Forfeited	-				-	
Expired	1,500	1.05		-	1,500	0.05
	-----				-----	
Outstanding at March 31, 2006	3,971,133	0.68	5.93	1,329,400	2,917,801	0.82

The total intrinsic value of options exercised during the six months ended March 31, 2006 and 2005 was \$20,907 and \$47,851, respectively.

A summary of the status of the Company's non-vested options as of March 31, 2006 is presented below:

	Number of Shares	Weighted Average 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

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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
-----------------------------	-----------	---------

No corresponding expense was recorded for the six months ended March 31, 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 six months ended March 31, 2005, the Company's net loss and net loss per common share would have been increased to the pro forma amounts indicated below:

	Six Months Ended March 31, 2005	Three Months Ended March 31, 2005
Net loss:		
As reported and amended	\$ (2,328,198)	\$ (1,331,071)
Add: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(274,840)	(148,590)
	-----	-----
Pro forma net loss, as amended	\$ (2,603,038)	\$ (1,479,661)
	=====	=====
Net loss per share, as reported and amended	\$0.03	\$0.02
	=====	=====
Pro forma net loss per share	\$0.03	\$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

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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.

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CEL-SCI CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED MARCH 31, 2006 AND 2005
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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

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results of operations or cash flows. The statement is effective for fiscal years beginning after September 15, 2006.

C. STOCKHOLDERS' EQUITY

During the six months ended March 31, 2006, the Company issued stock and stock options for services to a nonemployee with a fair value of \$144,718. During the three months ended March 31, 2005, the Company issued stock or stock options for services to a nonemployee with a fair value of \$7,972.

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. The warrant price was \$0.145 as of March 31, 2006. As of March 31, 2006, 621,648 warrants had been exercised and 278,352 warrants remain outstanding. 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

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stock. The Series H warrant price was \$0.25 as of March 31, 2006. As of March 31, 2006, 759,792 warrants had been exercised and 340,208 warrants remain outstanding. Both the Series G and Series H warrants were exercised in a cashless transaction.

During April 2006, all of the remaining Series G and H warrants were converted into 618,560 shares of common stock in a cashless exercise.

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 year ended September 30, 2004.

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

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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 March 31, 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. PRIVATE PLACEMENT

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

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CEL-SCI CORPORATION

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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 the equity line of credit totaling \$677,727, selling 1,419,446 shares of common stock.

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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 December 31, 2005, 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 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.

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.

G. 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

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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 year 2006. Ultimately, the

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Company must complete the development of its products, obtain the appropriate regulatory approvals and obtain sufficient revenues to support its cost structure.

H. MARKETING AGREEMENT

On May 30, 2003, the Company and Eastern Biotech signed an agreement to develop both Multikine and CEL-1000, and their derivatives and improvements, in three Eastern European countries: Greece, Serbia and Croatia. Eastern Biotech also has the exclusive right to sales in these three countries. As part of the agreement, Eastern Biotech gained the right to receive a 1% royalty on the future net sales of these two products and their derivatives and improvements worldwide. Eastern Biotech also purchased 1,100,000 shares of common stock and warrants, which allow the holder to purchase up to 1,100,000 shares of the Company's common stock at a price equal to \$0.47. The Company received proceeds of \$500,000 for these shares and warrants. Because the Company did not register these shares prior to September 30, 2003, the royalty percentage increased to 2%. If Eastern Biotech did not meet certain clinical development milestones within one year, it would lose the right to sell both products in these three countries. As of June 1, 2004, Eastern Biotech lost its exclusive right to market, distribute and sell both products in accordance with the agreement.

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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

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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 March 31, 2006, 621,648 warrants had been exercised and 278,352 warrants remain outstanding. 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. The Series H warrant price is currently \$0.25. As of March 31, 2006, 759,792 warrants had been exercised and 340,208 warrants remain outstanding.

During April 2006, all of the remaining Series G and H warrants were converted into 618,560 shares of common stock 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 March 31, 2006, all warrants remain outstanding.

On May 30, 2003, the Company and Eastern Biotech signed an agreement to develop both Multikine and CEL-1000, and their derivatives and improvements, in three Eastern European countries: Greece, Serbia and Croatia. Eastern Biotech also has the exclusive right to sales in these three countries. As part of the agreement, Eastern Biotech gained the right to receive a 1% royalty on the future net sales of these two products and their derivatives and improvements worldwide. Eastern Biotech also purchased 1,100,000 shares of common stock and warrants, which allow the holder to purchase up to 1,100,000 shares of the Company's common stock at a price equal to \$0.47. The Company received proceeds of \$500,000 for these shares and warrants. Because the Company did not register these shares prior to September 30, 2003, the royalty percentage increased to 2%. If Eastern Biotech did not meet certain clinical development milestones within one year, it would lose the right to sell both products in these three countries. As of June 1, 2004 no clinical trials had been started by Eastern Biotech and in accordance with the agreement, Eastern Biotech lost its exclusive right to market,

distribute and sell both products in the countries.

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.

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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 the equity line of credit totaling \$677,727, selling 1,419,446 shares of common stock. 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 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.

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 March 31, 2006, the only remaining instrument

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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.

Results of Operations

"Grant revenues and other" decreased by \$118,630 during the six months ended March 31, 2006, compared to the same period of the previous year, due to the winding down of the work funded by the grants in 2005. The Company is continuing to apply for grants to support its work. The decrease during the three-month period ended March 31, 2006 was \$72,970 for the same reason.

During the six-month period ended March 31, 2006, research and development expenses decreased by \$424,245. During the three-month period ended March 31, 2006, research and development expenses decreased by \$158,030. In the previous year, expenses were higher because the Company was working on the Phase III application for Multikine.

During the three and six-month periods ended March 31, 2006, general and administrative expenses increased by \$346,929 and \$387,751, respectively. An increase in public relations and corporate presentation expenses and the employee stock option expense required by SFAS 123R was the cause of the increase.

Interest income during the six months ended March 31, 2006 decreased by \$8,892. The decrease was because the balances in the interest bearing accounts declined. For the same reason, interest income during the three months ended March 31, 2006 decreased by \$2,476.

The gain on derivative instruments of \$11,515 for the six months ended March 31, 2006, compared to a loss of \$107,855 for the same period of 2005 was the result of an increase in the Company's stock price during the period. The loss on derivative instruments of \$1,822 during the three months ended March 31, 2006 compared to a loss of \$75,082 for the same period in 2005 was the result of a reclassification to equity of all derivative instruments except for the Series E warrants on December 27, 2005.

Research and Development Expenses

During the six and three-month periods ended March 31, 2006 and 2005, the Company's research and development efforts involved Multikine and L.E.A.P.S.. The table below shows the research and development expenses associated with each project during the six and three-month periods.

	Six Months Ended March 31,		Three Months Ended March 31,	
	2006	2005	2006	2005
MULTIKINE	\$752,932	\$1,096,242	\$369,035	\$481,537
L.E.A.P.S.	108,814	189,749	57,822	103,218
TOTAL	\$861,746	\$1,285,991	\$426,857	\$584,755

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,

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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 again in October of 2005 to discuss the Phase III trial. The meeting was very useful and productive, and the Company views it as the start of a continuing dialogue with the Agency on this matter. 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. The Company found the FDA's evaluation of the plan supportive and helpful. A number of specific technical aspects of the Company's development plan were discussed and the FDA made several suggestions as to how the plan could be improved. The Company provided additional information to the FDA in 2005, and is waiting for the FDA's response.. The Company is unable to estimate the future costs of research and clinical trials involving Multikine since the Company has not yet finalized the design of future clinical trials. Until the scope of these trials is known, the Company will not be able to price any future trials with clinical trial organizations.

As of March 31, 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 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

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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 has 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 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 March 31, 2006. For the six months ended March 31, 2006, the Company recorded \$103,596 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 six months ended March 31, 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

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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 March 31, 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 March 31, 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.

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 March 31, 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.

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.

(a) Exhibits

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Number	Exhibit
31	Rule 13a-14(a) Certifications
32	Section 1350 Certifications
(b)	Reports on Form 8-K

The Company filed two reports on Schedule 8-K during the quarter ended March 31, 2006. Both Schedule 8-K filings discussed the late filing of the Company's Form 10-K for the fiscal year ended September 30, 2005.

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: July 18, 2006

/s/ Geert Kersten

Geert Kersten
Chief Executive Officer*

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