CEL SCI CORP
Form 10-Q
February 14, 2008

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 December 31, 2007

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [ ] Smaller reporting company [X]
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act).

Yes _____ No _____X_____
_

Class of Stock	No. Shares Outstanding	Date
Common	115,818,088	February 11, 2007

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Item 1. FINANCIAL STATEMENTS

CEL-SCI CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

ASSETS

	December 31, 2007	September 30, 2007
CURRENT ASSETS		
Cash and cash equivalents	$ 9,339,221	$ 10,993,021
Interest and other receivables	90,161	57,476
Prepaid expenses	21,637	34,578
Inventory used for R&D and manufacturing	332,609	385,650
Deposits	14,828	14,828
Total current assets	9,798,456	11,485,553
RESEARCH AND OFFICE EQUIPMENT AND LEASEHOLD IMPROVEMENTS -- Less accumulated depreciation of $1,882,981 and $1,859,644	229,834	233,876
PATENT COSTS- less accumulated amortization of $1,034,079 and $896,407	554,294	541,380
RESTRICTED CASH	2,168,629	2,168,629
DEFERRED RENT	6,301,364	6,301,364
TOTAL ASSETS	$ 19,052,577	$ 20,730,802
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 243,717	$ 248,120
Accrued expenses	107,061	98,603
Due to employees	19,014	26,735
Accrued interest on convertible debt	63,512	68,795
Derivative instruments - current portion	771,219	782,732
Deposits held	-	3,000
Total current liabilities	1,204,523	1,227,985
Deferred rent	2,932	1,466
Derivative instruments - noncurrent portion	3,738,280	4,831,252
Total liabilities	4,945,735	6,060,703
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; authorized, 100,000 shares; no shares issued and outstanding	-	-
Common stock, $.01 par value; authorized, 300,000,000 shares; issued and outstanding, 115,777,068 and 115,678,662 shares at December 31, 2007 and September 30, 2007, respectively	1,157,771	1,156,787
Additional paid-in capital	131,784,687	130,081,378
Accumulated deficit	(118,835,616)	(116,568,066)
Total stockholders' equity	14,106,842	14,670,099
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 19,052,577	$ 20,730,802

See notes to condensed consolidated financial statements.

CEL-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended December 31,	
	2007	2006
REVENUE:		
Grant revenue	$ -	$ 13,862
Rent income	1,530	6,090
Other income	-	841
Total revenue	1,530	20,793
EXPENSES:		
Research and development, excluding depreciation of $30,463 and $20,493 included below	1,028,966	506,158
Depreciation and amortization	54,253	41,842
General and administrative	1,785,749	1,052,704
Total expenses	2,868,968	1,600,704
LOSS FROM OPERATIONS	(2,867,438)	(1,579,911)
GAIN ON DERIVATIVE INSTRUMENTS	989,988	719,247
INTEREST INCOME	178,731	95,551
INTEREST EXPENSE	(144,016)	(347,246)
NET LOSS BEFORE INCOME TAXES	(1,842,735)	(1,112,359)
INCOME TAX PROVISION	-	-
NET LOSS	(1,842,735)	(1,112,359)
DIVIDENDS	(424,815)	-
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (2,267,550)	$ (1,112,359)
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, BASIC & DILUTED	115,708,186	82,928,432

See notes to condensed consolidated financial statements.

CEL-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(unaudited)

	Three Months Ended December 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET LOSS	$ (1,842,735)	$ (1,112,359)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	54,253	41,842
Penalty shares issued to nonemployees	-	110,325
Issuance of common stock and stock options for services	676,917	-
Common stock contributed to 401(k) plan	23,969	22,314
Employee option cost	465,008	30,984
Consultant option extension	99,181	-
Loss (gain) on derivative instruments	(989,988)	(719,247)
Amortization of discount on convertible debt	80,503	173,764
Increase in deferred rent	1,466	-
Increase in receivables	(32,685)	(1,325)
Decrease in prepaid expenses	12,941	338,961
Decrease in inventory for R&D and manufacturing	53,041	10,786
(Decrease) increase in accounts payable	(34,419)	44,906
Increase in accrued expenses	8,458	13,657
(Decrease) increase in amount due to employees	(7,721)	10,591
Decrease in deposits held	(3,000)	-
(Decrease) increase in accrued interest on convertible debt	(5,283)	99,009
NET CASH USED IN OPERATING ACTIVITIES	(1,440,094)	(935,792)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of equipment	(27,843)	(47,769)
Patent costs	(5,266)	8,587
NET CASH USED IN INVESTING ACTIVITIES	(33,109)	(39,182)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	14,403	71,427
Repayment of convertible notes	(195,000)	-
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(180,597)	71,427

NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,653,800)	(903,547)
CASH AND CASH EQUIVALENTS:		
Beginning of period	10,993,021	8,080,365
End of period	$ 9,339,221	$ 7,176,818

See notes to condensed consolidated financial statements. (continued)

CEL-SCI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(unaudited)

(continued)

	Three Months Ended December 31,	
	2007	2006
SUPPLEMENTAL INFORMATION ON NONCASH TRANSACTIONS:		
Patent costs included in accounts payable:		
Increase in accounts payable	$ (27,187)	$ (35,576)
Increase in patent costs	27,187	35,576
	$ -	$ -
Equipment costs included in accounts payable:		
Increase in accounts payable	$ (2,829)	$ -
Increase in research and office equipment	2,829	-
	$ -	$ -
Cost of investor warrant extension:		
Increase in accumulated deficit	$ 424,815	$ -
Increase in additional paid-in capital	(424,815)	-
	$ -	$ -

concluded

NOTE:

Interest expense paid during the three months ended December 31, 2007 and 2006 totaled $63,512 and $74,473, respectively.

See notes to condensed consolidated financial statements.

CEL-SCI CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

THREE MONTHS ENDED DECEMBER 31, 2007 AND 2006

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, 2007.

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 December 31, 2007 and the results of operations for the three-month period then ended. The condensed consolidated balance sheet as of September 30, 2007 is derived from the September 30, 2007 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-month periods ended December 31, 2007 and 2006 are not necessarily indicative of the results to be expected for the entire year.

Significant accounting policies are as follows:

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 which do not extend the life of the asset are expensed when incurred. Depreciation expense for the three-month period ended December 31, 2007 and 2006 were $34,714 and $20,962.

Patents - Patent expenditures are capitalized and amortized using the straight-line method over the shorter of the expected useful life or the legal life of the patent (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 three-month period ended December 31, 2007 and 2006, the Company recorded no patent impairment charges. For the three-month periods ended December 31, 2007 and 2006, amortization of patent costs totaled $19,539 and $20,880 respectively. The Company estimates that amortization expense will be $77,846 for each of the next five years, totaling $389,230.

Research and Development Costs - Research and development expenditures are expensed as incurred. Total research and development costs, excluding depreciation, were $1,028,966 and $506,158 for the three months ended December 31, 2007 and 2006.

Income Taxes - The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating and tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be recognized.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") effective January 1, 2007. FIN 48 provides a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company did not have any unrecognized tax benefits and there was no effect on its financial condition or results of operations as a result of implementing FIN 48. The Company elected to continue to report any interest and penalties as income taxes. No interest or penalties were accrued as a result of the adoption of FIN 48.

Stock-Based Compensation - 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. Compensation expense has been 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 December 31, 2007. For the three months ended December 31, 2007 and 2006, the Company recorded $-0- and $30,984, respectively 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 8,000 and -0- options granted to new

employees during the three-month periods ended December 31, 2007 and 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.

During the three months ended December 31, 2007, no options from the non-qualified plan vested. During the three months ended December 31, 2007, no options from the incentive stock option plan vested.

The Company 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 the Company'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 the Company 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 the Company 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 the Company, 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 the Company 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

the Company's outstanding shares).

Non-Qualified Stock Option Plans. The Non-Qualified Stock Option Plans authorize the issuance of shares of the Company's common stock to persons that exercise options granted pursuant to the Plans. The Company'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 par value of the Company's common stock on the date the option is granted.

During the three months ended December 31, 2007 and 2006, 50,467 and 324,666 options were exercised. All options exercised were from the non-qualified plans. The total intrinsic value of options exercised during the three months ended December 31, 2007 and 2006 was $17,691 and $131,644, respectively.

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. There were no options granted to non-employees during the three months ended December 31, 2007. In addition, no shares of common stock were issued during the quarter. During the quarter ended December 31, 2007, 2,016,176 options to non-employees were extended. See note C. For the three months ended December 31, 2006, common stock and options with a value of $66,718 were issued for services.

B. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements". The statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is evaluating whether this statement will affect its current practice in valuing fair value of its derivatives each quarter.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 15". The Statement permits companies to choose to measure many financial instruments and certain other items at fair value. The statement is effective for fiscal years that begin after November 15, 2007, but early adoption is permitted. The Company is evaluating the effective of the adoption of this statement.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 (revised 2007), Business Combinations, which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of

assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141R is effective beginning October 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective beginning October 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently assessing the potential impact that adoption of SFAS No. 160 would have on our financial statements.

C. STOCKHOLDERS' EQUITY

In November and December 2007, the Company extended 1,905,633 employee options and 2,016,176 investor warrants. The options and warrants were due to expire from December 1, 2007 through December 31, 2008. All options and warrants were extended for an additional five years from the original expiration date. The cost of the extension of employee options of $465,008 was recorded as a debit to general and administrative expense and a credit to additional paid-in capital. The cost of the extension of investor warrants of $424,815 was recorded as a debit to accumulated deficit (dividend) and a credit to additional paid-in capital. The cost of the

extension of the consultant warrants of $99,181 is recorded as a debit to general and administrative expense and a credit to additional paid-in capital. The additional cost of the extension of employee options and investor warrants was determined using the Black Scholes method.

D. SERIES K CONVERTIBLE DEBT

In August 2006, the Company issued $8,300,000 in aggregate principal amount of convertible notes (the "Series K Notes") together with warrants to purchase 4,825,581 shares of the Company's common stock (the Series K Warrants"). Additionally, in connection with issuance of the Series K Notes and Series K 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 $7,731,290, net of $568,710 in direct transaction costs, including the placement agent fee.

The Series K Notes were convertible into 10,480,000 shares of the Company's common stock at the option of the holder at any time prior to maturity at a conversion price of $0.75 per share, subject to adjustment for certain events. The Series K Warrants are exercisable over a five-year period from February 4, 2007 through February 4, 2012 at $0.75 per share.

The Series K 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 of $207,500 beginning on March 4, 2007 and continuing through September 4, 2010. The remaining principal balance of $2,075,000 is required to be repaid on August 4, 2011; however, holders of the Series K Notes may require repayment of the entire remaining principal balance at any time after August 4, 2010. Interest is payable quarterly beginning 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) $0.75 per share, as adjusted pursuant to the terms of the Series K 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. 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 Series K Notes, unless prior approval is given by vote of at least a majority of the shares outstanding. The Company received such approval on November 17, 2006.

The Company is accounting for the Series K Warrants as derivative liabilities in accordance with SFAS No. 133. A debt discount of $1,734,472 is being amortized to interest expense using the effective interest method over the expected term of the Series K Notes. During the three-month periods ended December 31, 2007 and 2006, the Company recorded interest expense of $80,503 and $173,764, respectively, in amortization of the debt discount. As of December 31, 2007, the fair value of the Series K notes is

$2,772,162 and the fair value of the investor and placement agent warrants is $1,737,337. The Company recorded a gain on derivative instruments of $989,988 and $719,247 during the three months ended December 31, 2007 and 2006 respectively.

During the three months ended December 31, 2007 and 2006, no Series K notes were converted into shares of common stock. Principal payments of $195,000 were made to the holders of the Series K notes. As of December 31, 2007, $3,090,716 of the Series K Notes remained outstanding.

The following summary comprises the total of the fair value of the convertible debt and related derivative instruments at December 31, 2007 and September 30, 2007:

	December 31, 2007	September 30, 2007
Face value of debt	$3,090,716	$3,285,715
Discount on debt	(362,583)	(443,086)
Investor warrants	1,734,472	1,734,472
Placement agent warrants	128,692	192,826
Fair value adjustment-convertible debt	44,029	168,207
Fair value adjustment-investor warrants	(125,827)	675,850
Total fair value	$4,509,499	$5,613,984

E. OPERATIONS AND FINANCING

The Company has incurred significant costs since its inception in connection with the acquisition of an exclusive worldwide license to and later acquisition of the technology of 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 the Series K convertible debt, the April 2007 financing, other external financing and additional capital and/or expenditure reductions in order to meet the Company's liabilities and commitments as they come due through December 31, 2008. Ultimately, the Company must complete the development of its products, obtain the appropriate regulatory approvals and obtain sufficient revenues to support its cost structure.

F. DIVIDENDS

The Company has paid no dividends to shareholders since inception. The cost of the extension of investor warrants during the three months ended December 31, 2007 of $424,815 is recorded as a dividend, and increases the accumulated deficit.

G. SUBSEQUENT EVENTS

On January 24, 2008, a second amendment to the lease for the manufacturing facility was signed. In accordance with the amendment, CEL-SCI is required to pay the following: 1) an additional $518,790 for movable equipment, which will increase restricted cash, and 2) an additional $1,295,528 into the escrow account to cover additional costs, which will increase deferred rent. These funds were transferred in early February 2008.

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 an exclusive worldwide license to, and later purchase of, certain patented and unpatented proprietary technology and know-how relating to the human immunological defense system, 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 the proceeds from the sale of its securities to meet all of its liquidity and capital resource requirements.

During the three-month period ended December 31, 2007 and 2006, the Company used cash totaling $1,653,800 and $903,547 respectively. Cash used in operating activities totaled $1,440,094 and $935,792 for each of the three-month periods. Cash provided by (used in) financing activities totaled ($180,597) and $71,427, respectively. Cash used in financing activities was for repayment of convertible notes ($195,000), partially offset by the exercise of employee options $14,403 during the three months ended December 31, 2007. For the three months ended December 31, 2006, cash provided by financing activities was from the exercise of employee options. Cash used in investing activities was $33,109 and $39,182 for the three months ended December 31, 2007 and 2006. This consisted of purchases of equipment and legal costs incurred in patent applications.

Results of Operations and Financial Condition

Grant revenues and other decreased by $13,862 during the three months ended December 31, 2007, compared to the same period of the previous year, due to the completion of the work funded by the grants. The final grant ended on March 31, 2007.

During the three-month period ended December 31, 2007, research and development expenses increased by $522,808 compared to the three-month period ended December 31, 2006. This increase was due to work on two new CEL-1000 projects and the use of lab supplies in the preparation for the beginning of the Phase III trials on Multikine. The Company is preparing for the opening of the manufacturing facility.

During the three-month period ended December 31, 2007, general and administrative expenses increased by $733,045 compared to the three-month period ended December 31, 2006. This change was primarily due to: 1) the cost of stock issued to employees (approximately $418,350), 2) the cost of extending employee options (approximately $465,000), and 3) the cost of extending consultant warrants (approximately $99,200). These increases were partially offset by a decrease in presentation costs (approximately $248,000).

Interest income during the three months ended December 31, 2007 increased by $83,180 compared to the three-month period ended December 31, 2006. The increase was due to interest earned on the funds received from the Series K convertible notes and the April 2007 financing.

The gain on derivative instruments of $989,988 for the three months ended December 31, 2007, was the result of the change in fair value of the Series K Notes and Series K Warrants during the period.

The interest expense of $144,016 for the three months ended December 31, 2007 was composed of two elements: 1) amortization of the Series K discount ($80,503) and 2) interest paid and accrued on the Series K warrants ($63,513). This is a

decline of approximately $206,230 from the three months ended December 31, 2006 because of the lower balance of convertible debt.

Research and Development Expenses

During the three-month periods ended December 31, 2007 and 2006, 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 three-month periods.

	Three Months Ended December 31,	
	2007	2006
MULTIKINE	$908,948	$428,321
L.E.A.P.S	120,018	77,837
TOTAL	$1,028,966	$506,158

In January 2007, the Company received a "no objection" letter from the FDA indicating that it could proceed with the Phase III protocol with Multikine in head & neck cancer patients. The protocol for the Phase III clinical trial was designed to develop conclusive evidence of the safety and efficacy of Multikine in the treatment of advanced primary squamous cell carcinoma of the oral cavity. The Company had previously received a "no objection" letter from the Canadian Biologics and Genetic Therapies Directorate which enabled the Company to begin its Phase III clinical trial in Canada.

As of December 31, 2007, the Company was involved in a number of pre-clinical studies with respect to its L.E.A.P.S. technology. 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.

In August 2007, CEL-SCI leased a building near Baltimore, Maryland. The building, which consists of approximately 73,000 square feet, will be remodeled in accordance with CEL-SCI's specifications so that it can be used by CEL-SCI to manufacture Multikine for CEL-SCI's Phase III clinical trial and sales of the drug if approved by the FDA. The lease is for a term of twenty years and requires annual base rent payments of $1,575,000 during the first year of the lease. The annual base rent escalates each year at 3%. CEL-SCI is also required

to pay all real and personal property taxes, insurance premiums, maintenance expenses, repair costs and utilities. The lease allows CEL-SCI, at its election, to extend the lease for two ten-year periods or to purchase the building at the end of the 20-year lease. The lease required CEL-SCI to pay $3,150,000 towards the remodeling costs, which will be recouped by reductions in the annual base rent of $303,228 in years six through twenty of the lease.

Regulatory authorities prefer to see biologics such as Multikine manufactured for commercial sale in the same manufacturing facility for Phase III clinical trials and the sale of the product since this arrangement helps to ensure that the drug lots used to conduct the clinical trials will be consistent with those that may be subsequently sold commercially. Although some biotech companies outsource their manufacturing, this can be risky with biologics because they require intense manufacturing and process control. With biologic products a minor change in manufacturing and process control can result in a major change in the final product. Good and consistent manufacturing and process control is critical and is best assured if the product is manufactured and controlled in the manufacturer's own facility by their own specially trained personnel. 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 Estimates and Policies

Management's discussion and analysis of the Company's financial condition and results of operations is based on its unaudited condensed consolidated financial statements. The preparation of these financial statements is based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and notes. The Company believes some of the more critical estimates and policies that affect its financial condition and results of operations are in the areas of patents, stock options and warrants, asset valuations and review for potential impairments, prepaid expenses and laboratory supplies, and derivative instruments. For more information regarding the Company's critical accounting estimates and policies, see Item 7, MD&A "Critical Accounting Policies" of the Company's 2007 10-K. We have discussed the application of these critical accounting policies and estimates with the Audit Committee of the Company's Board of Directors.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

As of December 31, 2007, the Company had outstanding Series K Notes and Series K Warrants which were classified as derivative financial instruments. Interest on the Series K Notes is tied to the 6-month LIBOR. Should the 6-month LIBOR increase, interest payments on the Series K debt may increase as well. The interest rate risk on investments is considered immaterial due to the fact that all investments have maturities of three months or less.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure 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 December 31, 2007, and in his opinion CEL-SCI's disclosure controls and procedures are effective and 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. The Company has determined that these controls and procedures are effective as of December 31, 2007.

Changes in Internal Control over Financial Reporting

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. The Company continues to evaluate its internal controls.

PART II

Item 2. Changes in Securities and Use of Proceeds

None

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

See Item 4 of the Company's report on Form 10-K for the year ended September 30, 2007.

Item 5. Other Information

None

Item 6. (a) Exhibits

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

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: February 14, 2008

/s/ Geert Kersten

Geert Kersten, Chief Executive Officer*

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