CEL SCI CORP
Form 10-Q
February 12, 2010

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, 2009
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, and 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 [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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	204,201,968	February 1, 2010

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CEL-SCI CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

ASSETS	December 31, 2009	September 30, 2009
CURRENT ASSETS		
Cash and cash equivalents	$ 36,040,879	$ 33,567,516
Prepaid expenses	113,544	39,972
Inventory used for R&D and manufacturing	554,981	399,474
Deposits	1,585,090	1,585,064
Total current assets	38,294,494	35,592,026
RESEARCH AND OFFICE EQUIPMENT AND LEASEHOLD IMPROVEMENTS--		

Less accumulated depreciation of $2,359,107 and $2,259,237	1,194,717	1,200,611
PATENT COSTS- less accumulated amortization of $1,151,352 and $1,132,612	399,082	423,104
RESTRICTED CASH	21,295	68,552
DEFERRED RENT	8,596,046	8,743,305
TOTAL ASSETS	$ 48,505,634	$ 46,027,598
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 690,431	$ 793,148
Accrued expenses	95,505	98,665
Due to employees	23,154	49,527
Derivative instruments - current portion	12,912,022	35,113,970
Deposits held	10,000	10,000
Related party loan	1,104,057	1,107,339
Total current liabilities	14,835,169	37,172,649
Deferred rent	14,326	14,305
Total liabilities	14,849,495	37,186,954
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; authorized, 200,000 shares; no shares issued and outstanding	-	-
Common stock, $.01 par value; authorized, 450,000,000 shares; issued and outstanding, 203,535,189 and 191,972,021 shares at December 31, 2009 and September 30, 2009, respectively	2,035,352	1,919,720
Additional paid-in capital	184,744,667	173,017,978
Accumulated deficit	(153,123,880)	(166,097,054)
Total stockholders' equity	33,656,139	8,840,644
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 48,505,634	$ 46,027,598

See notes to condensed consolidated financial statements.

CEL-SCI CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended December 31,	
	2009	2008
REVENUE:		
Rent income	$ 30,000	$ -
Total revenue	30,000	-

EXPENSES:		
Research and development, excluding depreciation of $99,583 and $64,523 included below	2,805,127	1,410,753
Depreciation and amortization	119,581	85,944
General and administrative	1,358,141	1,055,126
Total expenses	4,282,849	2,551,823
LOSS FROM OPERATIONS	(4,252,849)	(2,551,823)
GAIN ON DERIVATIVE INSTRUMENTS	23,340,267	391,689
INTEREST INCOME	110,219	71,237
INTEREST EXPENSE	(38,120)	(84,616)
NET INCOME (LOSS) BEFORE INCOME TAXES	19,159,517	(2,173,513)
INCOME TAX PROVISION	-	-
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ 19,159,517	$ (2,173,513)
NET INCOME (LOSS) PER COMMON SHARE-BASIC	$ 0.10	$ (0.02)
NET INCOME (LOSS) PER COMMON SHARE-DILUTED	$ 0.02	$ (0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-BASIC	194,959,814	122,215,334
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-DILUTED	256,198,162	122,215,334

See notes to condensed consolidated financial statements.

CEL-SCI CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(unaudited)

	Three Months Ended December 31, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	$ 19,159,517	$ (2,173,513)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	119,581	85,944
Issuance of common stock, warrants and stock		

options for services	309,594	516,886
Common stock contributed to 401(k) plan	22,252	16,247
Employee option cost	305,001	155,272
Gain on derivative instruments	(23,340,267)	(391,689)
Amortization of discount on convertible debt	-	43,649
Amortization of loan premium	(3,282)	-
Amortization of deferred rent	202,944	222,527
Loss on abandonment of patents	5,381	-
(Increase) decrease in prepaid expenses	(73,572)	7,236
(Increase) in inventory for R&D and manufacturing	(155,507)	(57,603)
(Increase) decrease in deposits	(26)	5,433
(Decrease) increase in accounts payable	(145,202)	272,689
(Decrease) increase in accrued expenses	(3,160)	176,407
(Decrease) increase in amount due to employees	(26,373)	28,270
Decrease in accrued interest on convertible debt	-	(5,404)
Increase in deferred rent liability	21	6,163
NET CASH USED IN OPERATING ACTIVITIES	(3,623,098)	(1,091,486)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in restricted cash	47,257	862,368
Increase in deferred rent asset	(55,685)	(573,539)
Sale of investments available-for-sale securities	-	200,000
Purchase of equipment	(51,491)	(115,963)
Patent costs	(1,070)	(8,613)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(60,989)	364,253
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and warrants	6,157,450	-
Licensing proceeds (Note D)	-	499,982
Repayment of convertible notes	-	(270,000)
Proceeds from short term loan-related party	-	100,000
Repayment of short term loan	-	(200,000)
Financing costs	-	(15,060)
NET CASH PROVIDED BY FINANCING ACTIVITIES	6,157,450	114,922
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,473,363	(612,311)
CASH AND CASH EQUIVALENTS:		
Beginning of period	33,567,516	711,258
End of period	$ 36,040,879	$ 98,947

(continued)

See notes to condensed consolidated financial statements.

CEL-SCI CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(unaudited)
(continued)

	Three Months Ended December 31, 2009	2008
SUPPLEMENTAL INFORMATION ON NONCASH TRANSACTIONS:		
Equipment costs included in accounts payable:		
Increase in accounts payable	$ (42,485)	$ (13,967)
Increase in research and office equipment	42,485	13,967
	$ -	$ -
Payment of convertible debt principal with common stock:		
Decrease in convertible debt	$ -	$ 95,000
Increase in common stock	-	(4,056)
Increase in additional paid-in capital	-	(90,944)
	$ -	$ -
Conversion of interest on convertible debt into common stock:		
Decrease in accrued interest on convertible debt	$ -	$ 40,154
Increase in common stock	-	(1,706)
Increase in additional paid-in capital	-	(38,448)
	$ -	$ -
Exercise of derivative liability warrants:		
Decrease in derivative liabilities	$ 5,048,024	$ -
Increase in additional paid-in capital	(5,048,024)	-
	$ -	$ -
Conversion of warrants from additional paid in capital to derivative liabilities:		
Increase in derivative liabilities	(6,186,343)	-
Increase in accumulated deficit	6,186,343	-
	$ -	$ -
NOTE:		
Cash expenditures for interest expense	$ 38,120	$ 45,058

See notes to condensed consolidated financial statements.

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 country-regionplaceUnited 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 condensed consolidated financial statements should be read in conjunction with the condensed consolidated financial statements and notes included in the Company's annual report on Form 10-K for the year ended September 30, 2009.

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, 2009 and the results of operations for the three-month period then ended. The condensed consolidated balance sheet as of September 30, 2009 is derived from the September 30, 2009 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, 2009 and 2008 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 does not extend the life of the asset is expensed when incurred. Depreciation expense for the three-month periods ended December 31, 2009 and 2008 was $99,870 and $64,672, respectively.

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 periods ended December 31, 2009 and 2008, the Company recorded patent impairment charges of $5,381 and $-0-, respectively. For the three-month periods ended December 31, 2009 and 2008, amortization of patent costs totaled $19,711 and $21,272, respectively. The Company estimates that amortization expense will be $85,000 for each of the next five years, totaling $425,000.

Research and Development Costs - Research and development expenditures are

expensed as incurred. Total research and development costs, excluding depreciation, were $2,805,127 and $1,410,753, respectively, for the three months ended December 31, 2009 and 2008.

Income Taxes - The Company has net operating loss carryforwards of approximately $108 million. 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 those 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.

Derivative Instruments - The Company has entered into financing arrangements that consist of freestanding derivative instruments or are hybrid instruments that contain embedded derivative features. The Company has also issued warrants to various parties in connection with work done by these parties. The Company accounts for these arrangements in accordance with Codification 815-10-50, "Accounting for Derivative Instruments and Hedging Activities". The Company also accounts for warrants in accordance with Codification 815-40-15, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock". In accordance with accounting principles generally accepted in the United States ("GAAP"), derivative instruments and hybrid instruments are recognized as either assets or liabilities in the balance sheet and are measured at fair value with gains or losses recognized in earnings or other comprehensive income depending on the nature of the derivative or hybrid instruments. The Company determines the fair value of derivative instruments and hybrid instruments based on available market data using appropriate valuation models, giving consideration to all of the rights and obligations of each instrument. The derivative liabilities are remeasured at fair value at the end of each interim period as long as they are outstanding.

Deferred rent (asset) - The deferred rent is discussed at Note J. Long-term interest receivable on the deposit on the manufacturing facility has been combined with the deferred rent (asset) for both periods for comparability.

Stock-Based Compensation - The Company follows Codification 718-10-30-3, "Share-Based Payment". This Codification applies to all transactions involving issuance of equity by a company in exchange for goods and services, including to employees. Compensation expense has been recognized for awards that were granted, modified, repurchased or cancelled on or after dateMonth10Day1Year2005October 1, 2005 as well as for the portion of awards previously granted that vested during the period ended December 31, 2009. For the three months ended December 31, 2009 and 2008, the Company recorded $305,001 and $155,272, 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 110,000 and -0- options granted to employees

during the three-month periods ended December 31, 2009 and 2008, respectively. Options are granted with an exercise price equal to the closing 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.

The Company has Incentive Stock Option Plans, Non-Qualified Stock Option Plans, a Stock Compensation Plan and Stock Bonus Plans. All Plans have been approved by the stockholders. A summary description of the Stock Option Plans follows. For further discussion of the Stock Compensation Plan and Stock Bonus Plans, see Form 10-K for the year ended September 30, 2009. In some cases these Plans are collectively referred to as the "Plans".

Incentive Stock Option Plans. 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 option holder'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 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 Company's Board of Directors.

During the three months ended December 31, 2009, 32,625 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, 2009 was $6,806. There were no options exercised during the three months ended December 31, 2008.

Options to non-employees are accounted for in accordance with Codification 505-50-05-5, "Equity Based Payments to Non-Employees". 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, 2009. There were 104,192 shares of common stock issued to consultants during the three months ended December 31, 2009 at a cost for the three months of $134,999. Additionally, a portion of the cost of common stock issued in previous quarters was expensed. The cost for the three months ended December 31, 2009 was $174,595. There were no options granted to non-employees during the three months ended December 31, 2008. There were 1,003,881 shares of common stock issued to consultants during the three months ended December 31, 2008 at a cost for the three months ended December 31, 2008 of $207,299. In addition, a portion of the cost of common stock issued in previous quarters was expensed. This cost for the three months ended December 31, 2008 was $309,587.

B. NEW ACCOUNTING PRONOUNCEMENTS

In March 2008, the FASB issued Codification 815-20-50-1, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133", which changes disclosure requirements for derivative instruments and hedging activities. The statement is effective for periods ending on or after November 15, 2008, with early application encouraged. The Company has adopted this statement and the effect is immaterial.

In June 2008, the FASB finalized Codification 815-40-15, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock". The topic lays out a procedure to determine if the debt instrument is indexed to its own common stock. The topic is effective for fiscal years beginning after December 15, 2008. The Company has adopted this topic and the effect was material. (See Note D).

In September 2008, the FASB staff issued Codification 815-10-50-1A, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161". This applies to credit derivatives within the scope of Statement 133 and hybrid instruments that have embedded credit derivatives. It deals with disclosures related to these derivatives and is effective for reporting periods ending after November 15, 2008. It also clarifies the effective date of SFAS No. 161 as any reporting period beginning after November 15, 2008. The Company has adopted this statement and the effect was immaterial.

In January 2010, the FASB amended Codification 820-10, "Improving Disclosures about Fair Value Measurement", effective for interim periods beginning after December 15, 2009. This amendment changes disclosures required for interim and annual periods about fair value measurements. The Company is evaluating the disclosure requirements, but does not expect that there will be a significant impact from the adoption of the amendment.

C. AVAILABLE-FOR-SALE SECURITIES

At September 30, 2008, the Company had $200,000 in face value of Auction Rate Cumulative Preferred Shares (ARPs), liquidation preference of $25,000 per share, of an income mutual fund. The ARPs were invested primarily in a globally diversified portfolio of convertible instruments, common and preferred stocks, and income producing securities such as investment grade and below investment grade (high yield/high risk) debt securities.

The Company carried the ARPs at par value until they were repaid in November 2008. The loan that the Company had taken against these ARPs was repaid at the same time.

D. STOCKHOLDERS' EQUITY

In November 2008, the Company extended its licensing agreement for Multikine with Orient Europharma. The new agreement extends the Multikine collaboration to also cover South Korea, the Philippines, Australia and New Zealand. The licensing agreement initially focuses on the areas of head and neck cancer, nasopharyngeal cancer and potentially cervical cancer. The agreement expires 15 years after the commencement date which is defined as the date of the first commercial sale of Multikine in any country within their territory. As a result of the agreement, Orient Europharma purchased 1,282,051 shares of common stock at a cost of $0.39 per share, for a total to the Company, after expenses, of $499,982.

During the three months ended December 31, 2008, 1,003,881 shares of common stock were issued in payment of invoices totaling $207,299. Common stock was also issued to pay interest and principal on the Series K convertible debt. (See Note E.)

On December 30, 2008, the Company entered into an Equity Line of Credit agreement as a source of funding for the Company. For a two-year period, the agreement allows the Company, at its discretion, to sell up to $5 million of the Company's common stock at the volume weighted average price of the day minus 9%. The Company may request a drawdown once every ten trading days, although the Company is under no obligation to request any drawdowns under the equity line of credit. The equity line of credit expires on January 6, 2011. There were no drawdowns during the three months ended December 31, 2009 or 2008.

During the three months ended December 31, 2009, the Company issued 104,192 shares of stock to consultants. The prices ranged from $1.25 to $1.60. The total cost of the shares issued was $134,999 and is included in research and development costs.

During the three months ended December 31, 2009, there were 11,434,253 warrants and options exercised for 11,434,253 shares of common stock at prices ranging from $0.25 to $1.05. The Company received a total of $6,157,450 from the exercise of warrants and options during the quarter

ended December 31, 2009.

Included in the warrants and options exercised during the quarter were 1,015,454 Series K warrants (See Note E), on which the Company recognized a gain on conversion of $428,769 and 8,375,000 Series A warrants, on which the Company recognized a total gain of $8,291,250. Both the Series K warrants and the Series A warrants were accounted for as derivative liabilities. Series A warrants were issued in connection with the June 2009 financing. When the warrants were exercised, the value of these warrants was converted from derivative liabilities to equity. Series K warrants transferred to equity totaled $944,274 and Series A warrants transferred to equity totaled $4,103,750. The remaining Series A through E warrants were valued at $8,021,451 at December 31, 2009, a gain on derivative instruments during the quarter of $9,324,921.

On October 1, 2009, the Company reviewed all outstanding warrants in accordance with the requirements of Codification 815-40, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock". This topic provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. The warrant agreement provides for adjustments to the purchase price for certain dilutive events, which includes an adjustment to the conversion ratio in the event that the Company makes certain equity offerings in the future at a price lower than the conversion prices of the warrant instruments. Under the provisions of Codification 815-40, the warrants are not considered indexed to the Company's stock because future equity offerings or sales of the Company's stock are not an input to the fair value of a "fixed-for-fixed" option on equity shares, and equity classification is therefore precluded. Accordingly, effective October 1, 2009, 3,890,782 warrants issued in August 2008 were determined to be subject to the requirements of this topic and were valued using the Black-Scholes formula as of October 1, 2009 at $6,186,343. Effective October 1, 2009, the warrants are recognized as a liability in the Company's condensed consolidated balance sheet at fair value with a corresponding adjustment to accumulated deficit and will be marked-to-market each reporting period. The warrants were revalued on December 31, 2009 at $2,879,179, which resulted in a gain on derivatives and a reduction in derivative liabilities of $3,307,164 due to the decline in the Company's stock price since October 1, 2009. The assumptions used in the fair value calculation for the warrants as of October 1, 2009 and December 31, 2009 are as follows:

	October 1, 2009	December 31, 2009
Expected stock price volatility	95%	95%
Risk-free interest rate	2.151%	2.508%
Expected life of warrant	4.88 years	4.63 years

E. 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 Company accounted for the Series K Warrants as derivative liabilities in accordance with Codification 815-10. A debt discount of $1,734,472 was 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, 2009 and 2008, the Company recorded interest expense of $-0- and $43,649, respectively, in amortization of the debt discount. During the fiscal year ended September 30, 2009, the balance of the debt was either repaid or converted into shares of common stock. The Company recorded a gain on derivative instruments of $391,689 during the three months ended December 31, 2008.

During the three months ended December 31, 2008, principal payments of $270,000 were made in cash to the holders of the Series K Notes. In addition, 405,634 shares of common stock were issued in December for the principal payment due on January 4, 2009 of $95,000. The Company also paid the interest expense through December 31, 2008 with 170,577 shares of common stock.

During the three months ended December 31, 2009, the Company recorded a gain on remaining Series K warrants of $1,988,163. In addition, a gain of $428,769 on the exercise of 1,015,454 Series K warrants was recorded as of December 31, 2009.

The following summary comprises the total of the fair value of the convertible debt and related derivative instruments at December 31, 2009 and September 30, 2009:

	December 31, 2009	September 30, 2009
Investor warrants	$ 414,110	$1,734,472
Fair value adjustment-investor warrants	1,597,282	3,638,126
Total fair value	$2,011,392	$5,372,598

F. FAIR VALUE MEASUREMENTS

Effective October 1, 2008, the Company adopted the provisions of Codification 820-10, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value and expands disclosures about such measurements that are permitted or required under other accounting pronouncements. While Codification 820-10 may change the method of calculating fair value, it does not require any new fair value measurements. The new effective date is for fiscal years beginning after November 15, 2008 and the interim periods within the fiscal year. The adoption of Codification 820-10 did not have a material impact on the Company's results of operations, financial position or cash flows.

In accordance with Codification 820-10, the Company determines fair value as the price that would be received to sell an asset or paid to transfer a

liability in an orderly transaction between market participants at the measurement date. The Company generally applies the income approach to determine fair value. This method uses valuation techniques to convert future amounts to a single present amount. The measurement is based on the value indicated by current market expectations with respect to those future amounts.

Codification 820-10 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to active markets for identical assets and liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The Company classifies fair value balances based on the observability of those inputs. The three levels of the fair value hierarchy are as follows:

- Level 1 - Observable inputs such as quoted prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and amounts derived from valuation models where all significant inputs are observable in active markets
- Level 3 - Unobservable inputs that reflect management's assumptions

For disclosure purposes, assets and liabilities are classified in their entirety in the fair value hierarchy level based on the lowest level of input that is significant to the overall fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels.

The table below sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, in the condensed consolidated balance sheet at December 31, 2009:

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Derivative instruments	$ -	$12,912,022	$ -	$12,912,0

The fair values of the Company's derivative instruments disclosed above are primarily derived from valuation models where significant inputs such as historical price and volatility of the Company's stock as well as U.S. Treasury Bill rates are observable in active markets.

G. DERIVATIVE LIABILITIES

The Company has several groups of warrants that require classification in the balance sheet as derivative liabilities. These derivative liabilities

have been discussed above. Below is a summary of the derivative liabilities at December 31, 2009 and September 30, 2009:

	December 31, 2009	September 30, 2009
Series K warrants (Note E)	$ 2,011,392	$ 5,372,598
2009 financings warrants (Note D)	8,021,451	29,741,372
2008 warrants reclassified from equity to derivative liabilities on October 1, 2009 (Note D)	2,879,179	-
Total derivative liabilities	$12,912,022	$35,113,970

H. SHORT-TERM LOANS

The Company had a line of credit with its bank to borrow up to 100% of the ARPs (See Note C) at an interest rate of prime minus 1%. As of September 30, 2008, the Company had borrowed $200,000, which was repaid in November 2008. During the three months ended December 31, 2008, the Company had paid $813 in interest on the line of credit.

Between December 2008 and June 2009, Maximilian de Clara, the Company's President and a director, loaned the Company $1,104,057. The loan was initially payable at the end of March 2009, but was extended to the end of June 2009. At the time the loan was due, and in accordance with the loan agreement, the Company issued Mr. de Clara warrants which entitle Mr. de Clara to purchase 1,648,244 shares of the Company's common stock at a price of $0.40 per share. The warrants are exercisable at any time prior to December 24, 2014. Pursuant to Codification paragraph 470-50-40-17, the fair value of the warrants issuable under the first amendment was recorded as a discount on the note payable with a credit recorded to additional paid-in capital. The discount was amortized from April 30, 2009, through June 27, 2009. Although the loan was to be repaid from the proceeds of the Company's recent financing, the Company's Directors deemed it beneficial not to repay the loan and negotiated a second extension of the loan with Mr. de Clara on terms similar to the June 2009 financing. Pursuant to the terms of the second extension the note is now due on July 6, 2014, but, at Mr. de Clara's option, the loan can be converted into shares of the Company's common stock. The number of shares which will be issued upon any conversion will be determined by dividing the amount to be converted by $0.40. As further consideration for the second extension, Mr. de Clara received warrants which allow Mr. de Clara to purchase 1,849,295 shares of the Company's common stock at a price of $0.50 per share at any time prior to January 6, 2015. The loan from Mr. de Clara bears interest at 15% per year and was secured by a second lien on substantially all of the Company's assets. The Company does not have the right to prepay the loan without Mr. de Clara's consent.

In accordance with Codification 470-50, the second amendment to the loan was accounted for as an extinguishment of the first amendment debt. The extinguishment of the loan required that the new loan be recorded at fair

value and a gain or loss must be recognized, including the warrants issued in connection with the second amendment. This resulted in a premium of $341,454, which was amortized over the period from July 6, 2009, the date of the second amendment, to October 1, 2009, the date at which the loan holder may demand payment of the loan. During the three months ended December 31, 2009, the Company amortized the remaining $3,282 in premium on the loan. As of December 31, 2009, the fair value and the face value of the loan was $1,104,057.

I. OPERATIONS, FINANCING

The Company has incurred significant costs since its inception in connection with the acquisition 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 Federal Drug Administration (FDA) approval for the sale of products to be developed on a commercial basis is uncertain. Ultimately, the Company must complete the development of its products, obtain the appropriate regulatory approvals and obtain sufficient revenues to support its cost structure. The Company believes that it has sufficient funds to support its operations for more than the next twelve months.

The Company has two partners who have agreed to participate in and pay for part of the Phase III clinical trial for Multikine. Since the Company was able to raise substantial capital during 2009, the Company is currently preparing the Phase III trial for Multikine. The net cost of the clinical trial is estimated to be $20 million.

J. COMMITMENTS AND CONTINGENCIES

Lease Agreement - In August 2007, the Company leased a building near Baltimore, Maryland. The building, which consists of approximately 73,000 square feet, was remodeled in accordance with the Company's specifications so that it can be used by the Company to manufacture Multikine for the Company'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%. The Company is also required to pay all real and personal property taxes, insurance premiums,

maintenance expenses, repair costs and utilities. The lease allows the Company, 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 the Company 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, subject to the Company maintaining compliance with the lease covenants. On January 24, 2008, a second amendment to the lease for the manufacturing facility was signed. In accordance with the amendment, the Company was 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. In April 2008, an additional $288,474 was paid toward the completion of the manufacturing facility. The Company took possession of the manufacturing facility in October of 2008. An additional $505,225 was paid for the completion of the work on the manufacturing facility in October 2008. During the three months ended December 31, 2009, an additional $32,059 was paid for final completion costs.

In December 2008, the Company was not in compliance with certain lease requirements (i.e., failure to pay an installment of Base Annual Rent). However, the landlord did not declare the Company formally in default under the terms of the lease and has renegotiated the lease. In January 2009, as part of an amended lease agreement on the manufacturing facility, the Company repriced the 3,000,000 warrants issued to the lessor in July 2007 at $1.25 per share and which were to expire on July 12, 2013. These warrants are now repriced at $0.75 per share and expire on January 26, 2014. The cost of this repricing and extension of the warrants was $70,515 and was accounted for as a debit to the deferred rent asset and a credit to additional paid-in capital. In addition, 787,500 additional warrants were given to the lessor of the manufacturing facility on the same date. These warrants are exercisable at $0.75 per share and will expire on January 26, 2014. The cost of these warrants was $45,207 and was accounted for as a debit to the deferred rent asset and a credit to additional paid-in capital. All back rent was paid to the landlord in early July 2009. During the three months ended June 30, 2009, the Company issued the landlord an additional 2,296,875 warrants in accordance with an amendment to the agreement. These warrants were valued at $251,172 using the Black Scholes method. The Company is in compliance with the lease and expects to receive a refund of the $1,575,000 deposited with the landlord in July 2008 before the end of the current fiscal year.

On January 28, 2009, the Company subleased a portion of the manufacturing facility. The sublease commenced on February 2, 2009 and expires on January 31, 2011. The Company receives $10,000 per month in rent for the subleased space.

The Company began amortizing the deferred rent on the building on October 7, 2008, the day that the Company took possession of the building. The amortization on the deferred rent for the three months ended December 31, 2009 was $202,944 and for the three months ended December 31, 2008 was $222,527.

K. EARNINGS PER SHARE

The Company's diluted earnings per share (EPS) are as follows for December 31, 2009. The December 31, 2008 diluted earnings per share was the same as the basic earnings per share.

	December 31, 2009		
	Net Income	Weighted average Shares	EPS
Basic Earnings per Share	$19,159,517	194,959,814	$0.10
Note conversion	41,402	2,760,142	
Warrants and options convertible			

into share of common stock	(14,620,248)	58,478,206	
Dilutive EPS	$ 4,580,671	256,198,162	$ 0.02

L. SUBSEQUENT EVENTS

The Company has reviewed its activities through February 12, 2010. There are no subsequent events that require disclosure.

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 and will have to continue doing so in the future.

The Company will be required to raise additional capital or find additional long-term financing in order to continue with its research efforts. The ability of the Company to complete the necessary clinical trials and obtain Federal Drug Administration (FDA) approval for the sale of products to be developed on a commercial basis is uncertain. Ultimately, the Company must complete the development of its products, obtain the appropriate regulatory approvals and obtain sufficient revenues to support its cost structure. The Company believes that it has sufficient funds to support its operations for more than the next twelve months.

The Company has two partners who have agreed to participate in and pay for part of the Phase III clinical trial for Multikine. The Company also raised significant funds through stock sales and the exercise of warrants and options during 2009. In addition, the Company has a $5 million Equity Line of Credit in place (See Note D). Since the Company was able to raise substantial capital during 2009, the Company is currently preparing the Phase III trial for Multikine. The net cost of the clinical trial is estimated to be $20 million.

During the three-month period ended December 31, 2009, the Company's cash increased by $2,473,363 compared to a decrease in cash of $612,311 during the three months ended December 31, 2008. For the three months ended December 31, 2009 and 2008, cash used in operating activities totaled $3,646,724 and $1,159,800. For the three months ended December 31, 2009 and 2008, cash provided by financing activities totaled $6,157,450 and $114,922, respectively. The repayment of the Series K convertible notes ($270,000), financing costs ($15,060) and the repayment of the short-term loan ($200,000) was used in financing activities during the three months ended December 31, 2008. For the three months ended December 31, 2009, cash provided by financing was from the exercise of warrants and options ($6,157,450). Cash (used in) provided by investing activities was $(37,363) and $432,567, respectively, for the three months ended December 31, 2009 and 2008, respectively. The use of cash in investing activities consisted of purchases of equipment and legal costs incurred in patent applications and, for the three months ended December 31, 2008, the sale of the final $200,000 in ARPs.

In August 2007, the Company leased a building near Baltimore, Maryland. The building, which consists of approximately 73,000 square feet, was remodeled in accordance with the Company specifications so that it can be used by the Company to manufacture Multikine for the Company'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%. The Company is also required to pay all real and personal property taxes, insurance premiums, maintenance expenses, repair costs and utilities. The lease allows the Company, 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 the Company 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. In January 2008, the Company signed a second amendment to the lease. In accordance with the lease, on February 8, 2008, the Company paid an additional $1,295,528 toward the remodeling costs and a further $518,790 for lab equipment. In addition, in April 2008, an additional $288,474 was paid for the completion of the facility. The Company took possession of the manufacturing facility in October, 2008. The Company paid an additional $32,059 in expenses to complete the manufacturing facility during the three months ended December 31, 2009.

In December 2008, the Company was not in compliance with certain lease requirements (i.e., failure to pay an installment of Base Annual Rent). However, the landlord did not declare the Company formally in default under the terms of the lease and renegotiated the lease. In January 2009, as part of an amended lease agreement on the manufacturing facility, the Company repriced the 3,000,000 warrants issued to the landlord in July 2007 at $1.25 per share and which were to expire on July 12, 2013. These warrants are now repriced at $0.75 per share and expire on January 26, 2014. The cost of this repricing and extension of the warrants is $70,515 and was accounted for as a debit to the deferred rent asset and a credit to additional paid-in capital. In addition, 787,500 additional warrants were given to the landlord on the same date. The

warrants are exercisable at a price of $0.75 per share and will expire on January 26, 2014. The cost of these warrants was $45,207 and was accounted for as a debit to the deferred rent asset and a credit to additional paid-in capital. During the three months ended June 30, 2009, the Company issued the landlord an additional 2,296,875 warrants in accordance with an amendment to the agreement. These warrants were valued at $251,172 using the Black Scholes method. The Company is in compliance with the lease and expects to receive a refund of the $1,575,000 deposited with the landlord in July 2008 before the end of the current fiscal year.

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.

On January 28, 2009, the Company subleased a portion of the manufacturing facility. The lease commenced on February 2, 2009 and expires on January 31, 2011. The Company receives $10,000 per month in rent for the subleased space.

It should be noted that substantial funds will be needed for the clinical trial which will be necessary before the Company will be able to apply to the FDA for approval to sell any products which may be developed on a commercial basis throughout the United States. Ultimately, the Company must complete the development of its products, obtain appropriate regulatory approvals and obtain sufficient revenues to support its cost structure. The Company estimates that the Phase III clinical trial will cost $20 million.

The Company had invested in ARPs (See Note C). Because of liquidity issues with these ARPs, the Company borrowed $200,000 on a line of credit which was repaid in November of 2008.

Results of Operations and Financial Condition

During the three-month period ended December 31, 2009, research and development expenses increased by $1,394,374 compared to the three-month period ended December 31, 2008. This increase was due to continuing expenses relating to the preparation for the Phase III clinical trial.

During the three-month period ended December 31, 2009, general and administrative expenses increased by $303,015 compared to the three-month period ended December 31, 2008. This increase was caused by higher costs for employee options.

Interest income during the three months ended December 31, 2009 increased by $38,982 compared to the three-month period ended December 31, 2008. The increase was due to the increase in the funds available for investment.

The gain on derivative instruments of $23,340,267 for the three months ended December 31, 2009, was the result of the change in fair value of the Series A through E Warrants and Series K Warrants during the period. These gains were caused by fluctuations in the share price of the Company's common stock.

The interest expense of $38,120 for the three months ended December 31, 2009 was interest expense on the loan from the Company's president of $41,402, offset by the amortization of the remaining premium on the loan of ($3,282). The interest expense of $84,616 for the three months ended December 31, 2008 was composed of three elements: 1) amortization of the Series K discount ($43,649), 2) interest paid and accrued on the Series K debt ($40,154) and 3) margin interest ($813).

Research and Development Expenses

During the three-month periods ended December 31, 2009 and 2008, 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,	
	2009	2008
MULTIKINE	$2,296,333	$1,355,705
L.E.A.P.S	508,794	55,048
TOTAL	$2,805,127	$1,410,753

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. The Company is preparing for the start of its Phase III clinical trial in the United States.

As of December 31, 2009, 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.

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 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 operating leases, asset retirement obligations, and stock-based compensation. For more information regarding the Company's critical accounting estimates and policies, see Part II, Item 7, MD&A "Critical Accounting Estimates and Policies" of the Company's 2009 10-K report. The application of these critical accounting policies and estimates have been discussed with the Audit Committee of the Company's Board of Directors.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company has a loan from the president that bears interest at 15%. The Company does not believe that it has any significant exposures to market risk.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the direction and with the participation of the Company's management, including the Company's Chief Executive and Chief Financial Officer, the Company has conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of December 31, 2009. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its periodic reports with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. The Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching its desired disclosure control objectives. Based on the evaluation, the Chief Executive and Chief Financial Officer has concluded that the Company's disclosure controls and procedures were effective as of December 31, 2009.

Changes in Internal Control over Financial Reporting

The Company's management, with the participation of the Chief Executive and Chief Financial Officer, has evaluated whether any change in the Company's internal control over financial reporting occurred during the first quarter of fiscal year 2010. There was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2009.

PART II

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 12, 2010

/s/ Geert Kersten

Geert Kersten, Chief Executive Officer*

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