

CEL SCI CORP  
Form 10-Q  
August 09, 2016

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended June 30, 2016  
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 001-11889  
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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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

(Do not check if a smaller reporting company)

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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

| Class of Stock | No. Shares Outstanding | Date           |
|----------------|------------------------|----------------|
| Common         | 145,349,718            | August 1, 2016 |

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CEL-SCI  
CORPORATIONBALANCE  
SHEETS

(UNAUDITED)

|  | JUNE 30,     | SEPTEMBER 30, |
|--|--------------|---------------|
| ASSETS                                   | 2016         | 2015          |
| CURRENT ASSETS:                          |              |               |
| Cash and cash equivalents                | \$5,218,960  | \$5,726,682   |
| Receivables                              | 790,658      | 87,214        |
| Prepaid expenses                         | 713,549      | 979,655       |
| Deposits - current portion               | 150,000      | 150,000       |
| Inventory used for R&D and manufacturing | 1,259,458    | 1,401,839     |
| Deferred rent - current portion          | 444,349      | 487,793       |
| Total current assets                     | 8,576,974    | 8,833,183     |
| RESEARCH AND OFFICE EQUIPMENT, net       | 250,552      | 307,466       |
| PATENT COSTS, net                        | 266,493      | 291,564       |
| DEFERRED RENT - net of current portion   | 3,565,684    | 4,044,473     |
| DEPOSITS                                 | 1,820,917    | 1,970,917     |
| TOTAL ASSETS                             | \$14,480,620 | \$15,447,603  |

## LIABILITIES AND STOCKHOLDERS' DEFICIT

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CURRENT LIABILITIES:

|  |             |             |
|--|-------------|-------------|
| Accounts payable                       | \$4,437,389 | \$5,128,682 |
| Accrued expenses                       | 520,973     | 88,575      |
| Due to employees                       | 316,804     | 365,131     |
| Related party loan                     | -           | 1,104,057   |
| Deferred rent - current portion        | 4,037       | 9,997       |
| Lease obligation - current portion     | 2,309       | 9,028       |
| <br>                                   |             |             |
| Total current liabilities              | 5,281,512   | 6,705,470   |
| <br>                                   |             |             |
| Derivative instruments                 | 12,823,052  | 13,686,587  |
| Deferred revenue                       | 126,501     | 126,639     |
| Deferred rent - net of current portion | 18,378      | 9,026       |
| Deposits held                          | 5,000       | 5,000       |
| <br>                                   |             |             |
| Total liabilities                      | 18,254,443  | 20,532,722  |

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' DEFICIT

|   |               |               |
|---|---------------|---------------|
| Preferred stock, \$.01 par value--200,000 shares authorized;<br>-0- shares issued and outstanding   | -             | -             |
| Common stock, \$.01 par value - 600,000,000 shares authorized,<br>145,146,097 shares and 112,360,568 shares issued and outstanding<br>at June 30, 2016 and September 30, 2015, respectively | 1,451,461     | 1,123,606     |
| Additional paid-in capital  | 279,328,561   | 267,992,754   |
| Accumulated deficit   | (284,553,845) | (274,201,479) |
| <br>  |               |               |
| Total stockholders' deficit   | (3,773,823)   | (5,085,119)   |
| <br>  |               |               |
| TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT  | \$14,480,620  | \$15,447,603  |

See notes to financial statements.

CEL-SCI  
CORPORATION

STATEMENTS  
OF  
OPERATIONS

NINE MONTHS  
ENDED JUNE  
30, 2016 and 2015

(UNAUDITED)

|  | 2016           | 2015           |
|--|----------------|----------------|
| GRANT INCOME AND OTHER                         | \$183,726      | \$723,681      |
| OPERATING EXPENSES:                            |                |                |
| Research and development                       | 14,636,197     | 15,701,986     |
| General & administrative                       | 3,987,011      | 10,978,254     |
| Total operating expenses                       | 18,623,208     | 26,680,240     |
| OPERATING LOSS                                 | (18,439,482)   | (25,956,559)   |
| GAIN ON DERIVATIVE INSTRUMENTS                 | 8,037,974      | 1,808,954      |
| LOSS ON DEBT EXTINGUISHMENT                    | -              | (641,276)      |
| INTEREST INCOME (EXPENSE), NET                 | 49,142         | (41,810)       |
| NET LOSS                                       | \$(10,352,366) | \$(24,830,691) |
| NET LOSS PER COMMON SHARE<br>BASIC AND DILUTED | \$(0.09)       | \$(0.32)       |

WEIGHTED AVERAGE COMMON SHARES  
OUTSTANDING

|                   |             |            |
|-------------------|-------------|------------|
| BASIC AND DILUTED | 117,412,443 | 77,625,511 |
|-------------------|-------------|------------|

See notes to financial statements.

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CEL-SCI  
CORPORATION

STATEMENTS  
OF  
OPERATIONS

THREE  
MONTHS  
ENDED JUNE  
30, 2016 and 2015

(UNAUDITED)

|                                    | 2016          | 2015          |
|------------------------------------|---------------|---------------|
| GRANT AND OTHER INCOME             | \$129,975     | \$389,223     |
| OPERATING EXPENSES:                |               |               |
| Research and development           | 4,838,108     | 5,727,577     |
| General & administrative           | 1,674,614     | 2,863,121     |
| Total operating expenses           | 6,512,722     | 8,590,698     |
| OPERATING LOSS                     | (6,382,747)   | (8,201,475)   |
| GAIN ON DERIVATIVE INSTRUMENTS     | 2,508,744     | 4,428,780     |
| LOSS ON DEBT EXTINGUISHMENT        | -             | (641,276)     |
| INTEREST INCOME (EXPENSE), NET     | 24,679        | (15,166)      |
| NET LOSS                           | \$(3,849,324) | \$(4,429,137) |
| NET LOSS PER COMMON SHARE<br>BASIC | \$(0.03)      | \$(0.05)      |



|   |             |            |
|---|-------------|------------|
| DILUTED                                       | \$(0.03)    | \$(0.06)   |
| WEIGHTED AVERAGE COMMON SHARES<br>OUTSTANDING |             |            |
| BASIC   | 124,132,500 | 83,796,311 |
| DILUTED                                       | 124,132,500 | 85,134,107 |

See notes to financial statements.

CEL-SCI  
CORPORATION

STATEMENTS  
OF CASH  
FLOWS

NINE MONTHS  
ENDED JUNE  
30, 2016 and 2015

(UNAUDITED)

|  | 2016           | 2015           |
|--|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                   |                |                |
| Net loss   | \$(10,352,366) | \$(24,830,691) |
| Adjustments to reconcile net loss to<br>net cash used in operating activities: |                |                |
| Depreciation and amortization  | 118,272        | 163,431        |
| Issuance of common stock and options for services                              | 618,890        | 437,729        |
| Equity based compensation  | 1,263,662      | 4,570,999      |
| Common stock contributed to 401(k) plan  | 120,693        | 123,066        |
| Loss on retired equipment  | 115            | 313            |
| Gain on derivative instruments   | (8,037,974)    | (1,808,954)    |
| Loss on debt extinguishment  | -              | 641,276        |
| (Increase)/decrease in assets:   |                |                |
| Receivables  | 5,854          | (76,672)       |
| Deferred rent  | 522,233        | 559,828        |
| Prepaid expenses   | 267,742        | (283,864)      |
| Inventory used for R&D and manufacturing                                       | 142,381        | 36,513         |
| Deposits   | 150,000        | 150,000        |
| Increase/(decrease) in liabilities:  |                |                |
| Accounts payable   | (1,079,423)    | 1,856,635      |
| Accrued expenses   | 86,398         | (117,207)      |
| Due to employees   | (48,327)       | 95,214         |
| Deferred rent liability  | 3,392          | (5,795)        |
| Deferred revenue   | (138)          | (1,591)        |

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|   |                    |                     |
|---|--------------------|---------------------|
| Net cash used in operating activities                       | (16,218,596)       | (18,489,770)        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                |                    |                     |
| Purchases of equipment                                      | (31,405)           | (56,616)            |
| Expenditure for patent costs                                | (5,008)            | (9,422)             |
| Net cash used in investing activities                       | (36,413)           | (66,038)            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                |                    |                     |
| Proceeds from issuance of common stock and warrants         | 16,858,029         | 21,278,905          |
| Payment on related party loan                               | (1,104,057)        | -                   |
| Payments on obligations under capital lease                 | (6,685)            | (6,290)             |
| Net cash provided by financing activities                   | 15,747,287         | 21,272,615          |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b> | <b>(507,722)</b>   | <b>2,716,807</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>       | <b>5,726,682</b>   | <b>8,513,620</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>             | <b>\$5,218,960</b> | <b>\$11,230,427</b> |

See notes to financial statements.

CEL-SCI  
CORPORATION

STATEMENTS  
OF CASH  
FLOWS

NINE MONTHS  
ENDED JUNE  
30, 2016 and 2015

(UNAUDITED)

SUPPLEMENTAL DISCLOSURE OF NON-CASH CHANGES

|   | 2016      | 2015      |
|---|-----------|-----------|
| <b>ACCOUNTS PAYABLE</b>                   |           |           |
| Increase in receivables                   | \$363,298 | \$-       |
| Increase in research and office equipment | -         | 12,625    |
| (Decrease) in patent costs                | (12)      | (975)     |
| Decrease in capital lease obligation      | 34        | 32        |
| Increase in direct financing costs        | 24,810    | 128,630   |
| (Increase) in accounts payable            | (388,130) | (140,312) |
|   | \$-       | \$-       |

ACCRUED EXPENSES

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|                                |           |     |
|--------------------------------|-----------|-----|
| Increase in receivables        | \$346,000 | \$- |
| (Increase) in accrued expenses | (346,000) | -   |
|                                | \$-       | \$- |

ADDITIONAL PAID-IN CAPITAL

|  |               |               |
|--|---------------|---------------|
| (Increase) in derivative liabilities   | \$(7,174,439) | \$(8,463,957) |
| Decrease in common stock               | -             | 1,000         |
| Increase in prepaid services           | 1,636         | 20,464        |
| Decrease in additional paid-in capital | 7,172,803     | 8,442,493     |
|  | \$-           | \$-           |

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS  
INFORMATION:

|                                |          |           |
|--------------------------------|----------|-----------|
| Cash paid for interest expense | \$43,646 | \$124,914 |
|--------------------------------|----------|-----------|

See notes to financial statements.

CEL-SCI CORPORATION  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
NINE MONTHS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed financial statements of CEL-SCI Corporation (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, these interim condensed financial statements should be read in conjunction with the financial statements and notes included in the Company's annual report on Form 10-K for the year ended September 30, 2015.

In the opinion of management, the accompanying unaudited condensed financial statements contain all accruals and adjustments (each of which is of a normal recurring nature) necessary for a fair presentation of the Company's financial position as of June 30, 2016 and the results of its operations for the nine and three months then ended. The condensed balance sheet as of September 30, 2015 is derived from the September 30, 2015 audited 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 nine and three months ended June 30, 2016 are not necessarily indicative of the results to be expected for the entire year.

Summary of Significant Accounting Policies:

Research and Office Equipment and Leasehold Improvements - 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. Research and office equipment are reviewed on a quarterly basis to determine if any of the assets are impaired.

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 in the period identified. An impairment loss is recognized when estimated future undiscounted cash flows expected to result from the use of the asset, and from its 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.

Research and Development Costs - Research and development costs are expensed as incurred.

**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 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. A full valuation allowance was recorded against the deferred tax assets as of June 30, 2016 and September 30, 2015.

**Derivative Instruments** – The Company has entered into financing arrangements that consist of freestanding derivative instruments that contain embedded derivative features. The Company accounts for these arrangements in accordance with Accounting Standards Codification (ASC) 815, “Accounting for Derivative Instruments and Hedging Activities.” In accordance with accounting principles generally accepted in the United States (U.S. 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 reporting period as long as they are outstanding.

**Deferred Rent (Asset)** – Consideration paid, including deposits, related to operating leases is recorded as a deferred rent asset and amortized as rent expense over the lease term. Interest on deferred rent is calculated at 3% on the funds deposited on the manufacturing facility and is included in deferred rent. This interest income will be used to offset future rent.

**Stock-Based Compensation** – Compensation cost for all stock-based awards is measured at fair value as of the grant date in accordance with the provisions of ASC 718 “Compensation – Stock Compensation.” The fair value of stock options is calculated using the Black-Scholes option pricing model. The Black-Scholes model requires various judgmental assumptions including volatility and expected option life. The stock-based compensation cost is recognized on the straight line allocation method as expense over the requisite service or vesting period.

Equity instruments issued to non-employees are accounted for in accordance with ASC 505-50, “Equity-Based Payments to Non Employees.” Accordingly, compensation is recognized when goods or services are received and options issued are measured using the Black-Scholes valuation model. The Black-Scholes model requires various judgmental assumptions regarding the fair value of the equity instruments at the measurement date and the expected life of the options.

The Company has Incentive Stock Option Plans, Non-Qualified Stock Option Plans, a Stock Compensation Plan, Stock Bonus Plans and an Incentive Stock Bonus Plan. In some cases, these Plans are collectively referred to as the "Plans". All Plans have been approved by the stockholders.

The Company's stock options are not transferable, and the actual value of the stock options that an employee may realize, if any, will depend on the excess of the market price on the date of exercise over the exercise price. The Company has based its assumption for stock price volatility on the variance of daily closing prices of the Company's common stock. The risk-free interest rate assumption was based on the U.S. Treasury rate at date of the grant with term equal to the expected life of the option. Historical data was used to estimate option exercise and employee termination within the valuation model. The expected term of options represents the period of time that options granted are expected to be outstanding and has been determined based on an analysis of historical exercise behavior. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense for new awards may differ materially in the future from that recorded in the current period.

Vesting of restricted stock granted under the Incentive Stock Bonus Plan is subject to service, performance and market conditions and meets the classification of equity awards. These awards were measured at market value on the grant-dates for issuances where the attainment of performance criteria is likely and at fair value on the grant-dates, using a Monte Carlo simulation for issuances where the attainment of performance criteria is uncertain. The total compensation cost will be expensed over the estimated requisite service period.

Reclassification – Certain prior year items have been reclassified to conform to the current year presentation. Such reclassifications include approximately \$145,000 between related party notes payable and additional paid-in capital to reflect the modification of the note payable to the de Clara Trust in July 2015, which was accounted for as an extinguishment.

## B. NEW ACCOUNTING PRONOUNCEMENTS

In January 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for specific provisions within the guidance. Management does not expect the new standard to have a material effect on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases, which will require most leases (with the exception of leases with terms of less than one year) to be recognized on the balance sheet as an asset and a lease liability. Leases will be classified as an operating lease or a financing lease. Operating leases are expensed using the straight-line method whereas financing leases will be treated similarly to a capital lease under the current standard. The new standard will be effective for annual and interim periods, within those fiscal years, beginning after December 15, 2018, but early adoption is permitted. The new standard must be presented using the modified retrospective method beginning with the earliest comparative period presented. The Company is currently evaluating the effect of the new standard on its financial statements and related disclosures.



In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The new standard will be effective for annual and interim periods, within those fiscal years, beginning after December 15, 2016 but early adoption is permitted. The Company is currently evaluating the effect of the new amendment on its financial statements and related disclosures.

The Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its financial statements.

### C. STOCKHOLDERS' EQUITY

Stock options, stock bonuses and compensation granted by the Company as of June 30, 2016 are as follows:

| Name of Plan                     | Total Shares Reserved Under Plans | Shares Reserved for Outstanding Options | Shares Issued | Remaining Options/Shares Under Plans |
|----------------------------------|-----------------------------------|---|---------------|--------------------------------------|
| Incentive Stock Options Plans    | 1,960,000                         | 1,685,966                               | N/A           | 11,334                               |
| Non-Qualified Stock Option Plans | 7,680,000                         | 6,005,721                               | N/A           | 1,062,861                            |
| Stock Bonus Plans                | 3,594,000                         | N/A                                     | 2,562,950     | 1,030,223                            |
| Stock Compensation Plan          | 3,350,000                         | N/A                                     | 1,767,047     | 1,549,905                            |
| Incentive Stock Bonus Plan       | 16,000,000                        | N/A                                     | 15,600,000    | 400,000                              |

Stock options, stock bonuses and compensation granted by the Company as of September 30, 2015 are as follows:

| Name of Plan                     | Total Shares Reserved Under Plans | Shares Reserved for Outstanding Options | Shares Issued | Remaining Options/Shares Under Plans |
|----------------------------------|-----------------------------------|---|---------------|--------------------------------------|
| Incentive Stock Option Plans     | 1,960,000                         | 1,690,665                               | N/A           | 6,635                                |
| Non-Qualified Stock Option Plans | 7,680,000                         | 5,849,103                               | N/A           | 1,219,479                            |
| Bonus Plans                      | 3,594,000                         | N/A                                     | 1,643,714     | 1,949,459                            |
| Stock Compensation Plan          | 3,350,000                         | N/A                                     | 1,423,999     | 1,892,950                            |
| Incentive Stock Bonus Plan       | 16,000,000                        | N/A                                     | 15,600,000    | 400,000                              |



## Stock option activity:

Nine Months Ended  
June 30,

|           | 2016    | 2015    |
|-----------|---------|---------|
| Granted   | 210,000 | 803,700 |
| Forfeited | 55,998  | 137,249 |

Three Months Ended  
June 30,

|           | 2016  | 2015    |
|-----------|-------|---------|
| Granted   | 0     | 801,700 |
| Forfeited | 5,000 | 27,833  |

No shares of restricted stock were forfeited from the Incentive Stock Bonus Plan during the nine and three months ended June 30, 2016. During the nine and three months ended June 30, 2015, 100,000 and 0 shares, respectively, of non-vested restricted stock were forfeited.

## Stock-Based Compensation Expense

Nine Months Ended June  
30,

|               | 2016        | 2015        |
|---------------|-------------|-------------|
| Employees     | \$1,263,662 | \$4,570,999 |
| Non-employees | \$618,890   | \$437,729   |

Three months Ended  
June 30,

|               | 2016      | 2015      |
|---------------|-----------|-----------|
| Employees     | \$418,562 | \$619,145 |
| Non-employees | \$146,830 | \$137,600 |

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Employee compensation expense includes the expense related to options issued or vested and restricted stock. Non-employee expense includes the expense related to options and stock issued to consultants expensed over the period of their service contracts.

Derivative Liabilities, Warrants and Other Options

The following chart presents the derivative liabilities, warrants and other options outstanding during the quarter ended June 30, 2016:

| Warrant     | Issue Date            | Shares Issuable upon Exercise of Warrant | Exercise Price | Expiration Date       | Refer-ence |
|-------------|-----------------------|--|----------------|-----------------------|------------|
| Series R    | 12/6/12               | 2,625,000                                | \$4.00         | 12/6/16               | 1          |
| Series S    | 10/11/13<br>-10/24/14 | 25,928,010                               | \$1.25         | 10/11/18              | 1          |
| Series U    | 4/17/14               | 445,514                                  | \$1.75         | 10/17/17              | 1          |
| Series V    | 5/28/15               | 20,253,164                               | \$0.79         | 5/28/20               | 1          |
| Series W    | 10/28/15              | 17,223,248                               | \$0.67         | 10/28/20              | 1          |
| Series Z    | 5/23/16               | 6,600,000                                | \$0.55         | 11/23/21              | 1          |
| Series ZZ   | 5/23/16               | 500,000                                  | \$0.55         | 5/18/21               | 1          |
| Series X    | 1/13/16               | 3,000,000                                | \$0.37         | 1/13/21               | 2          |
| Series Y    | 2/15/16               | 650,000                                  | \$0.48         | 2/15/21               | 2          |
| Series N    | 8/18/08               | 2,844,627                                | \$0.53         | 8/18/17               |            |
| Series P    | 2/10/12               | 590,001                                  | \$4.50         | 3/6/17                |            |
| Consultants | 12/2/11- 1/1/16       | 440,000                                  | \$0.37- \$3.50 | 10/27/16-<br>12/31/18 | 3          |

The following chart presents the derivative liabilities, warrants and other options outstanding at September 30, 2015:

| Warrant     | Issue Date            | Shares Issuable upon Exercise of Warrants | Exercise Price | Expiration Date       | Reference |
|-------------|-----------------------|---|----------------|-----------------------|-----------|
| Series N    | 8/18/08               | 2,844,627                                 | 0.53           | 8/18/17               |           |
| Series Q    | 6/21/12               | 1,200,000                                 | 5.00           | 12/22/15              | 1         |
| Series R    | 12/6/12               | 2,625,000                                 | 4.00           | 12/6/16               | 1         |
| Series S    | 10/11/13-<br>10/24/14 | 25,928,010                                | 1.25           | 10/11/18              | 1         |
| Series U    | 4/17/14               | 445,514                                   | 1.75           | 10/17/17              | 1         |
| Series V    | 5/28/15               | 20,253,164                                | 0.79           | 5/28/20               | 1         |
| Series P    | 2/10/12               | 590,001                                   | 4.50           | 3/6/17                |           |
| Consultants | 10/14/05 – 7/1/15     | 238,000                                   | 0.66 – 20.00   | 10/14/15 -<br>6/30/18 | 3         |

1.  
Derivative Liabilities

The table below presents the derivative instruments and their respective balances at the balance sheet dates:

|                              | June 30, 2016 | September 30, 2015 |
|------------------------------|---------------|--------------------|
| Series S warrants            | \$3,930,686   | \$7,363,555        |
| Series U warrants            | 4,455         | 44,551             |
| Series V warrants            | 3,443,038     | 6,278,481          |
| Series W warrants            | 3,557,971     | -                  |
| Series Z warrants            | 1,756,982     | -                  |
| Series ZZ warrants           | 129,920       | -                  |
| Total derivative liabilities | \$12,823,052  | \$13,686,587       |

The gains on the derivative instruments are as follows:

|                                | Nine Months Ended June<br>30, |             |
|--------------------------------|-------------------------------|-------------|
|                                | 2016                          | 2015        |
| Series A through E warrants    | \$-                           | \$6,105     |
| Series H warrants              | -                             | 12,000      |
| Series Q warrants              | -                             | 12,000      |
| Series R warrants              | -                             | 131,250     |
| Series S warrants              | 3,432,869                     | 472,487     |
| Series U warrants              | 40,096                        | 74,352      |
| Series V warrants              | 2,835,443                     | 1,100,760   |
| Series W warrants              | 1,502,800                     | -           |
| Series Z warrants              | 210,848                       | -           |
| Series ZZ warrants             | 15,918                        | -           |
| Gain on derivative instruments | \$8,037,974                   | \$1,808,954 |

|                                | Three Months Ended June<br>30, |             |
|--------------------------------|--------------------------------|-------------|
|                                | 2016                           | 2015        |
| Series H warrants              | \$-                            | \$12,000    |
| Series Q warrants              | -                              | 12,000      |
| Series R warrants              | -                              | 105,000     |
| Series S warrants              | 285,208                        | 3,111,361   |
| Series U warrants              | 13,366                         | 87,659      |
| Series V warrants              | 1,012,658                      | 1,100,760   |
| Series W warrants              | 970,746                        | -           |
| Series Z warrants              | 210,848                        | -           |
| Series ZZ warrants             | 15,918                         | -           |
| Gain on derivative instruments | \$2,508,744                    | \$4,428,780 |

The Company reviews all outstanding warrants in accordance with the requirements of ASC 815. 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 agreements provide for adjustments to the exercise price for certain dilutive events. Under the provisions of ASC 815, 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.

In accordance with ASC 815, derivative liabilities must be measured at fair value upon issuance and re-valued at the end of each reporting period through expiration. Any change in fair value between the respective reporting dates is recognized as a gain or loss.

#### Issuance of additional Warrants

On May 23, 2016, the Company closed a registered direct offering of 10,000,000 shares of common stock and 6,600,000 Series Z warrants to purchase shares of common stock. The common stock and warrants were sold at a combined per unit price of \$0.50 for net proceeds of approximately \$4.6 million, net of placement agent's commissions and offering expenses. The Series Z warrants may be exercised at any time on or after November 23, 2016 and on or before November 23, 2021 at a price of \$0.55 per share. The Company also issued 500,000 Series ZZ warrants to the placement agent as part of its compensation. The Series ZZ warrants may be exercised at any time on or after November 23, 2016 and on or before May 18, 2021 at a price of \$0.55 per share. The fair value of the Series Z and Series ZZ warrants of \$2.1 million on the date of issuance was recorded as a warrant liability.

On October 28, 2015, the Company closed an underwritten public offering of 17,223,248 shares of common stock and 17,223,248 Series W warrants to purchase shares of common stock. The common stock and warrants were sold at a combined per unit price of \$0.67 for net proceeds of approximately \$10.5 million, net of underwriting discounts and commissions and offering expenses. The Series W warrants are immediately exercisable at a price of \$0.67 and expire on October 28, 2020. The fair value of the Series W warrants of \$5.1 million on the date of issuance was recorded as warrant liability.

#### Expiration of Warrants

On December 22, 2015, 1,200,000 Series Q warrants, with an exercise price of \$5.00, expired. The fair value of the Series Q warrants was \$0 on the date of expiration.

2.

#### Equity-based warrants

In January 2016, the Company sold 3,000,000 shares of its common stock and 3,000,000 Series X warrants to the de Clara Trust for approximately \$1.1 million. The de Clara Trust is controlled by Geert Kersten, the Company's Chief Executive Officer and a director. Each Series X warrant allows the de Clara Trust to purchase one share of the Company's common stock at a price of \$0.37 per share at any time on or before January 13, 2021. The Series X warrants qualify for equity treatment in accordance with ASC 815. The relative fair value of the warrants was calculated to be approximately \$417,000.

In February 2016, the Company sold 1,300,000 shares of its common stock and 650,000 Series Y warrants to a private investor for \$624,000. Each Series Y warrant allows the holder to purchase one share of the Company's common stock at a price of \$0.48 per share at any time on or before February 15, 2021. The Series Y warrants qualify for equity treatment in accordance with ASC 815. The relative fair value on the date of issuance of the warrants was calculated to be approximately \$144,000.

3.

#### Options and shares issued to consultants

The Company typically enters into consulting arrangements in exchange for common stock or stock options. During the nine and three months ended June 30, 2016, the Company issued 990,045 and 186,267 shares of common stock, respectively, of which 647,000 and 67,000, respectively, were restricted shares. Under these arrangements, the common stock was issued with stock prices ranging between \$0.37 and \$0.72 per share. During the nine and three months ended June 30, 2015, the Company issued 584,476 and 160,492 shares of common stock, respectively, of which 127,000 and 58,000, respectively, were restricted shares. Under these arrangements, the common stock was issued with stock prices ranging between \$0.57 and \$1.11 per share.

Additionally, during the nine and three months ended June 30, 2016, the Company issued 210,000 and 0 of fully vested options, respectively, to purchase common stock with a fair value ranging between \$0.19 and \$0.30 per share. During the nine and three months ended June 30, 2015, the Company issued 40,000 and 0 options, respectively, to purchase common stock with a fair value of \$0.50 per share. The aggregate values of the issuances of restricted common stock and common stock options are recorded as prepaid expenses and are charged to general and administrative expenses over the periods of service.



During the nine and three months ended June 30, 2016, the Company recorded total expense of approximately \$619,000 and \$147,000, respectively, relating to these consulting agreements. During the nine and three months ended June 30, 2015, the Company recorded total expense of approximately \$438,000 and \$138,000, respectively, relating to these consulting agreements. At June 30, 2016 and September 30, 2015, approximately \$32,000 and \$30,000, respectively, are included in prepaid expenses. As of June 30, 2016, 440,000 vested options issued to consultants as payment for services remained outstanding, all of which were issued from the Non-Qualified Stock Option plans.

#### D. FAIR VALUE MEASUREMENTS

In accordance with ASC 820-10, "Fair Value Measurements," 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.

ASC 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.

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The table below sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, in the condensed balance sheet at June 30, 2016:

|                        | 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 | \$3,930,686   | \$-   | \$8,892,366                               | \$12,823,052 |

The table below sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, in the condensed balance sheet at September 30, 2015:

|                        | 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 | \$7,363,555   | \$-   | \$6,323,032                               | \$13,686,587 |

The following sets forth the reconciliation of beginning and ending balances related to fair value measurements using significant unobservable inputs (Level 3) for the nine months ended June 30, 2016 and the year ended September 30, 2015:

|                               | (9 months ended)<br>June 30, 2016 | (12 months ended)<br>September 30, 2015 |
|-------------------------------|-----------------------------------|---|
| Beginning balance             | \$6,323,032                       | \$307,894                               |
| Issuances                     | 7,174,439                         | 8,003,220                               |
| Realized and unrealized gains | (4,605,105)                       | (1,988,082)                             |
| Ending balance                | \$8,892,366                       | \$6,323,032                             |

The fair values of the Company's derivative instruments disclosed above under Level 3 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.

E. RELATED PARTY LOAN

On January 12, 2016, the Company owed the de Clara Trust \$1,105,989, which amount included accrued and unpaid interest. On January 13, 2016, the de Clara Trust demanded payment on the note payable. At the same time the Company sold 3,000,000 shares of its common stock and 3,000,000 Series X warrants to the de Clara Trust for approximately \$1.1 million. Each warrant allows the de Clara Trust to purchase one share of the Company's common stock at a price of \$0.37 per share at any time on or before January 13, 2021.

Prior to the repayment, on June 29, 2015, the Company had extended the maturity date of the note to July 6, 2017, lowered the interest rate from 15% to 9% and changed the conversion price from \$4.00 to \$0.59, the closing stock price on the previous trading day. The Company determined these modifications to be substantive and accounted for the modification as an extinguishment of the pre-modification note and issuance of the post-modification note. The Company recorded an extinguishment loss and a premium on the note payable of approximately \$166,000. The premium was credited to additional paid-in capital.

During the nine and three months ended June 30, 2016, the Company paid approximately \$43,000 and \$0, respectively, in interest expense to Mr. de Clara. During the nine and three months ended June 30, 2015, the Company paid approximately \$124,000 and \$41,000, respectively, in interest expense to Mr. de Clara.

#### F. OPERATIONS AND 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 from loans and the public and private sale of its common 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 US Food & 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 is currently running a large multi-national Phase 3 clinical trial for head and neck cancer with its partners TEVA Pharmaceuticals and Orient Europharma. During the nine months ended June 30, 2016, the Company raised \$16.8 million in net proceeds from public and private sales of common stock and warrants. To finance the study for the next twelve months and beyond, the Company plans to raise additional capital in the form of corporate partnerships, as well as debt and/or equity financings. The Company believes that it will be able to obtain additional financing because it has done so consistently in the past and because Multikine is a product in the Phase 3 clinical trial stage. However, the operating plan may change as a result of many factors currently unknown to the Company, and the Company may need additional funds sooner than planned. There can be no assurance that the Company will be successful in raising additional funds on a timely basis or that the funds will be available to the Company on acceptable terms or at all. If the Company does not raise the necessary amounts of money, it will either have to slow the development of the Phase 3 clinical trial or even significantly curtail its operations until such time as it is able to raise the required funding.

Since the Company launched its Phase 3 clinical trial for Multikine, the Company has spent approximately \$31.9 million as of June 30, 2016 on direct costs for the Phase 3 clinical trial.

The financial statements have been prepared assuming that the Company will continue as a going concern, but due to recurring losses from operations and future liquidity needs, there is substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

G. COMMITMENTS AND CONTINGENCIES

Clinical Research Agreements

In March 2013, the Company entered into an agreement with Aptiv Solutions to provide certain clinical research services in accordance with a master service agreement. The Company will reimburse Aptiv for costs incurred. The agreement required the Company to make \$600,000 in advanced payments which are being credited back in \$150,000 annual increments through December 2017. As of June 30, 2016, the total balance advanced is \$300,000, of which \$150,000 is classified as a current asset.

In April 2013, the Company entered into a co-development and revenue sharing agreement with Ergomed. Under the agreement, Ergomed will contribute up to \$10 million towards the study in the form of offering discounted clinical services in exchange for a single digit percentage of milestone and royalty payments, up to a specific maximum amount. In October 2015 the Company entered into a second co-development and revenue sharing agreement with Ergomed for an additional \$2 million, for a total of \$12 million. The Company accounted for the co-development and revenue sharing agreement in accordance with ASC 808 "Collaborative Arrangements." The Company determined the payments to Ergomed are within the scope of ASC 730 "Research and Development." Therefore, the Company records the discount on the clinical services as a credit to research and development expense on its Statements of Operations. Since the Company entered into the co-development and revenue sharing agreement with Ergomed, it has incurred research and development expenses of approximately \$17.8 million related to Ergomed's services. This amount is net of Ergomed's discount of approximately \$5.9 million. During the nine and three months ended June 30, 2016, the Company recorded, net of Ergomed's discount, approximately \$5.9 million and \$2.1 million, respectively, as research and development expense related to Ergomed's services. During the nine and three months ended June 30, 2015, the Company recorded, net of Ergomed's discount, approximately \$4.9 million and \$1.7 million, respectively, as research and development expense related to Ergomed's services.

In October 2013, the Company entered into two co-development and profit sharing agreements with Ergomed. One agreement supports the Phase I study being conducted at the Naval Medical Center, San Diego under a Cooperative Research and Development Agreement (CRADA) with the U.S. Navy for the development of Multikine as a potential treatment in HIV/HPV co-infected men and women with peri-anal warts. The other agreement focuses on the development of Multikine in HIV/HPV co-infected women with cervical dysplasia. Ergomed will assume up to \$3 million in clinical and regulatory costs for each study.

On October 31, 2013, the Company commenced arbitration proceedings against inVentiv Health Clinical, LLC, or inVentiv, the Company's former clinical research organization (CRO). The arbitration claim, initiated under the Commercial Rules of the American Arbitration Association, alleges (i) breach of contract, (ii) fraud in the inducement, and (iii) common law fraud. Currently, the Company is seeking at least \$50 million in damages in its amended statement of claim. Based upon further analysis, however, the Company believes that its damages (direct and consequential) presently total over \$150 million.

On December 12, 2013, the former CRO filed a counterclaim, alleging breach of contract on the part of CEL-SCI and seeking at least \$2 million in damages. On December 20, 2013, the former CRO moved to dismiss certain claims. On June 24, 2014, the arbitrator denied the motion to dismiss.

In an amended statement of claim, the Company asserted the claims set forth above as well as an additional claim for professional malpractice. The arbitrator subsequently granted inVentiv's motion to dismiss the professional malpractice claim based on the "economic loss doctrine" under New Jersey law, a legal doctrine that, under certain circumstances, prohibits bringing a negligence-based claim alongside a claim for breach of contract. The arbitrator denied the remainder of inVentiv's motion, which had sought to dismiss certain other aspects of the amended statement of claim. In particular, the arbitrator rejected inVentiv's argument that several aspects of the amended statement of claim were beyond the arbitrator's jurisdiction.

In connection with the pending arbitration proceedings, inVentiv has asserted counterclaims against the Company for (i) breach of contract, seeking at least \$2 million in damages for services allegedly performed by inVentiv; (ii) breach of contract, seeking at least \$1 million in damages for the Company's alleged use of inVentiv's name in connection with publications and promotions in violation of the parties' contract; (iii) opportunistic breach, restitution and unjust enrichment, seeking at least \$20 million in disgorgement of alleged unjust profits allegedly made by the Company as a result of the purported breaches referenced in subsection (ii); and (iv) defamation, seeking at least \$1 million in damages for allegedly defamatory statements made about inVentiv. The Company believes inVentiv's counterclaims are meritless and intends to vigorously defend against them. However, if such defense is unsuccessful, and inVentiv successfully asserts any of its counterclaims, such an adverse determination could have a material adverse effect on the Company's business, results, financial condition and liquidity.

In October 2015, the Company signed a funding agreement with a company established by Lake Whillans Litigation Finance, LLC, a firm specializing in funding litigation expenses. Pursuant to the agreement, an affiliate of Lake Whillans will provide the Company funding for litigation expenses to support its arbitration claims against inVentiv. The funding is available to the Company as needed to fund the expenses of the ongoing arbitration and will only be repaid when the Company receives proceeds from the arbitration. During the nine months ended June 30, 2016, the Company recognized a gain of approximately \$1.1 million on the derecognition of legal fees to record the transfer of the liability that existed prior to the execution of the financing agreement from the Company to Lake Whillans. The gain on derecognition of legal fees is recorded as a reduction of general and administration expenses on the Statement of Operations. All related legal fees are directly billed to and paid by Lake Whillans. As part of the agreement with Lake Whillans, the law firm agreed to cap its fees and expenses for the arbitration at \$5 million.

The arbitration hearing on the merits (the "trial") has been scheduled to commence on September 7, 2016.

## Lease Agreements

In August 2007, the Company leased a building near Baltimore, Maryland. The building 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 3 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 to escalate each year at 3%. The Company is 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 Company was required to deposit the equivalent of one year of base rent in accordance with the contract. When the Company meets the minimum cash balance required by the lease, the deposit will be returned to the Company. The \$1,670,917 deposit is included in non-current assets at June 30, 2016 and September 30, 2015.

The Company subleases a portion of its rental space on a month to month term lease, which requires a 30 day notice for termination. Effective February 1, 2016, the parties agreed to a 3% rental increase. As of that date, the Company receives \$5,628 per month in rent for the subleased space.

The Company leases its research and development laboratory under a 60 month lease which expires February 28, 2017. The operating lease includes escalating rental payments. The Company is recognizing the related rent expense on a straight line basis over the full 60 month term of the lease at the rate of approximately \$11,000 per month. As of June 30, 2016 and September 30, 2015, the Company has recorded a deferred rent liability of \$4,000 and \$6,000, respectively.

The Company leases office headquarters under a 60 month lease which expires June 30, 2020. The operating lease includes escalating rental payments. The Company is recognizing the related rent expense on a straight line basis over the full 60 month term of the lease at the rate of approximately \$8,000 per month. As of June 30, 2016 and September 30, 2015, the Company has recorded a deferred rent liability of \$19,000 and \$13,000, respectively.

The Company leased office equipment under a capital lease arrangement. The term of the capital lease is 48 months and expires on September 30, 2016. The monthly lease payment is \$1,025. The lease bears interest at approximately 6% per annum.

## H. PATENTS

During the nine and three months ended June 30, 2016 and 2015, no patent impairment charges were recorded. For the nine and three months ended June 30, 2016, amortization of patent costs totaled approximately \$30,000 and \$12,000, respectively. For the nine and three months ended June 30, 2015, amortization of patent costs totaled approximately \$31,000 and \$12,000, respectively. Amortization of patent costs is included in general and administrative expenses on the Statement of Operations. The Company estimates that future amortization expense will be as follows:

|  |           |
|--|-----------|
| Three months ending September 30, 2016 | \$9,210   |
| Year ending September 30,              |           |
| 2017                                   | 36,841    |
| 2018                                   | 36,507    |
| 2019                                   | 34,804    |
| 2020                                   | 31,611    |
| 2021                                   | 28,311    |
| Thereafter                             | 89,209    |
| Total                                  | \$266,493 |

## I. LOSS PER COMMON SHARE

The following tables provide the details of the basic and diluted loss per-share (LPS) computations:

## Nine Months Ended June 30, 2016

| Net Loss | Weighted Average Shares | LPS |
|----------|-------------------------|-----|
|----------|-------------------------|-----|

|                        |                |             |          |
|------------------------|----------------|-------------|----------|
| Basic and dilutive LPS | \$(10,352,366) | 117,412,443 | \$(0.09) |
|------------------------|----------------|-------------|----------|

## Three Months Ended June 30, 2016

| Net Loss | Weighted Average Shares | LPS |
|----------|-------------------------|-----|
|----------|-------------------------|-----|

|                        |               |             |          |
|------------------------|---------------|-------------|----------|
| Basic and dilutive LPS | \$(3,849,324) | 124,132,500 | \$(0.03) |
|------------------------|---------------|-------------|----------|

## Nine Months Ended June 30, 2015



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Net Loss                      Weighted Average Shares    LPS

Basic and dilutive LPS    \$(24,830,691)    77,625,511                      \$(0.32)

Three Months Ended June 30, 2015

Net Loss                      Weighted Average Shares    LPS

Basic LPS                      \$(4,429,137)    83,796,311                      \$(0.05)

Gain on derivatives    (1,100,760)    1,337,796

Dilutive LPS                      \$(5,529,897)    85,134,107                      \$(0.06)

In accordance with the contingently issuable shares guidance of FASB ASC Topic 260, Earnings Per Share, the calculation of diluted net earnings (loss) per share excludes the following securities because their inclusion would have been anti-dilutive as of June 30:

|                           | 2016        | 2015       |
|---------------------------|-------------|------------|
| Options and Warrants      | 86,066,292  | 38,786,333 |
| Convertible Debt          | -           | 1,871,283  |
| Unvested Restricted Stock | 15,100,000  | 15,100,000 |
| Total                     | 101,166,292 | 55,757,616 |

J.  
SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date these financial statements were filed and determined 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's lead investigational therapy, Multikine® (Leukocyte Interleukin, Injection), is currently being tested in a Phase 3 clinical trial in advanced primary head and neck cancer. Multikine has been cleared for clinical testing by the regulators in twenty four countries around the world, including the United States. Multikine is also being used in a Phase I study at the Naval Medical Center, San Diego under a CRADA with the U.S. Navy in HIV/HPV co-infected men and women with peri-anal warts.

Multikine (Leukocyte Interleukin, Injection) is the full name of this investigational therapy, which, for simplicity, is referred to in the remainder of this report as Multikine. Multikine is the trademark that the Company has registered for this investigational therapy, and this proprietary name is subject to FDA review in connection with the Company's future anticipated regulatory submission for approval. Multikine has not been licensed or approved by the FDA or any other regulatory agency. Neither has its safety or efficacy been established for any use.

The Company also owns and is developing a pre-clinical technology called LEAPS (Ligand Epitope Antigen Presentation System).

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

Since inception, the Company has financed its operations through the sale of equity securities, convertible notes, loans and certain research grants. The Company's expenses will likely exceed its revenues as it continues the development of Multikine and brings other drug candidates into clinical trials. Until such time as the Company becomes profitable, any or all of these financing vehicles or others may be utilized to assist the Company's capital requirements.



Capital raised by the Company has been expended primarily for patent applications, debt repayment, research and development, administrative costs, and the construction of the Company's laboratory facilities. The Company does not anticipate realizing significant revenues until it enters into licensing arrangements regarding its technology and know-how or until it receives regulatory approval to sell its products (which could take a number of years). As a result, the Company has been dependent upon the proceeds from the sale of its securities to meet all of its liquidity and capital requirements and anticipates having to do 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 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, counting its cash on hand and access to the capital markets established over the years, it will have enough capital to support its operations through year end. In addition, the Company expects to receive proceeds from the arbitration against its former clinical research organization, InVentiv.

The Company estimates the total remaining cash cost of the Phase 3 trial as currently planned, with the exception of the parts that will be paid by its licensees, Teva Pharmaceuticals and Orient Europharma, to be approximately \$14.7 million. This is in addition to approximately \$31.9 million which has been paid as of June 30, 2016. This estimate is based on the information currently available in the Company's contracts with the Clinical Research Organizations responsible for managing the Phase 3 trial. This number can be affected by the speed of enrollment, rate of death of patients, foreign currency exchange rates and many other factors, some of which cannot be foreseen today. It is therefore possible that the cost of the Phase 3 trial will be higher than currently estimated. The trial costs will also increase should the Company need to enroll additional patients to replace patients enrolled by inVentiv, its former clinical research organization, since the data from certain patients enrolled by inVentiv may not be usable, or for other reasons. If additional patients need to be enrolled, the timelines for the trial will also be affected.

In April 2013, the Company announced that it had replaced the CRO running its Phase 3 clinical trial. This was necessary since the patient enrollment in the study dropped off substantially following a takeover of the CRO which caused most of the members of the CRO's study team to leave the CRO. The Company announced that it had hired two CRO's who will manage the global Phase 3 study; Aptiv Solutions and Ergomed, which are both international leaders in managing oncology trials. Both CRO's helped the Company expand the trial to over 80 clinical sites globally. As of June 30, 2016, the study has enrolled 848 patients.

Under a co-development agreement, Ergomed will contribute up to \$12 million towards the study where it will perform clinical services in exchange for a single digit percentage of milestone and royalty payments, up to a specified maximum amount, only from sales for head and neck cancer. Ergomed, a privately-held firm headquartered in Europe with global operations, has entered into numerous similar co-development agreements, including one with Genzyme (purchased by Sanofi in 2011 for over \$20 billion). Ergomed will be responsible for the new patient enrollment.

During the nine months ended June 30, 2016, the Company's cash decreased by approximately \$500,000. Significant components of this decrease include net proceeds from the sale of the Company's stock of \$16.8 million offset by net cash used to fund the Company's regular operations, including its on-going Phase 3 clinical trial, of \$16.2 million and the \$1.1 million repayment of the related party loan. During the nine months ended June 30, 2015, the Company's cash increased by \$2.7 million. Significant components of this increase include net proceeds from the sale of the Company's stock of \$21.3 million offset by net cash used to fund the Company's regular operations, including its on-going Phase 3 clinical trial, of \$18.5 million.

On October 28, 2015, the Company closed an underwritten public offering of 17,223,248 shares of common stock and 17,223,248 Series W warrants to purchase shares of common stock. The common stock and warrants were sold at a combined per unit price of \$0.67 for net proceeds of approximately \$10.5 million, net of underwriting discounts and commissions and offering expenses. The Series W warrants are immediately exercisable at a price of \$0.67 and expire on October 28, 2020.

In January 2016, the Company sold 3,000,000 shares of its common stock and 3,000,000 Series X Warrants to the de Clara Trust for approximately \$1.1 million. Each Series X Warrant allows the de Clara Trust to purchase one share of the Company's common stock at a price of \$0.37 per share at any time on or before January 13, 2021.

In February 2016, the Company sold 1,300,000 shares of its common stock and 650,000 Series Y Warrants to a private investor for \$624,000. Each Series Y Warrant allows the holder to purchase one share of the Company's common stock at a price of \$0.48 per share at any time on or before February 15, 2021.

On May 23, 2016, the Company closed a registered direct offering of 10,000,000 shares of common stock and 6,600,000 Series Z warrants to purchase shares of common stock. The common stock and warrants were sold at a combined per unit price of \$0.50 for net proceeds of approximately \$4.6 million, net of placement agent's commissions and offering expenses. The Series Z warrants may be exercised at any time on or after November 23, 2016 and on or before November 23, 2021 at a price of \$0.55 per share. The Company issued 500,000 Series ZZ warrants to the placement agent as part of its compensation. The Series ZZ warrants may be exercised at any time on or after November 23, 2016 and on or before May 18, 2021 at a price of \$0.55 per share.

#### Results of Operations and Financial Condition

During the nine and three months ended June 30, 2016, grant and other income decreased by approximately \$540,000 and \$260,000, respectively, compared to the nine and three months ended June 30, 2015. The decrease is primarily due to the timing of study drug shipments to supply the Company's partner in Taiwan and the grant income received through the Company's Small Business Innovation Research (SBIR) grant during the quarter ended June 30, 2015.

During the nine and three months ended June 30, 2016, research and development expenses decreased by approximately \$1.1 million and \$890,000, respectively, compared to the nine and three months ended June 30, 2015. The Company is continuing the Phase 3 clinical trial and research and development fluctuates based on the activity level of the clinical trial.

During the nine and three months ended June 30, 2016, general and administrative expenses decreased by approximately \$7 million and \$1.2 million, respectively, compared to the nine and three months ended June 30, 2015. Major components of the decrease are the reduction of legal fees and a decrease in share-based employee compensation costs, during the nine and three months ended June 30, 2016. Additionally, during the nine months ended June 30, 2016 the Company recognized an approximate \$1.1 million dollar gain on derecognition of legal fees to record the transfer of the liability from the Company to Lake Whillans that existed prior to the execution of the financing agreement. The gain on derecognition of legal fees is recorded as a reduction of general and administrative expenses.

The gain on derivative instruments of \$8 million and \$2.5 million, respectively, for the nine months ended June 30, 2016 were the results of the change in fair value of the derivative liabilities during the respective periods. The gain on derivative instruments of \$1.8 million and \$4.4 million for the nine and three months ended June 30, 2015 was the result of the change in fair value of the derivative liabilities during the period. These changes were caused by fluctuations in the share price of the Company's common stock.

During the three months ended June 30, 2015, the Company recorded a loss on debt extinguishment of \$641,000. This amount was comprised of an approximate \$166,000 premium on the note payable held in a related party trust, and an additional expense of approximately \$475,000 relating to the modification of Series N warrants also held in the trust. The loss on debt extinguishment resulted from substantive modification of the terms under the note, including an extension of the expiration date and a decrease in the interest rate, and an extension of the expiration date on the warrants.

Net interest income was \$49,000 and \$25,000 for the nine and three months ended June 30, 2016, which consisted of interest expense on the loan from the Company's president of approximately \$29,000 and \$0, respectively, offset by interest income of approximately \$78,000 and \$25,000, respectively, earned on the Company's cash balances. Net interest expense was \$42,000 and \$15,000 for the nine and three months ended June 30, 2015, which consisted of approximately \$125,000 and \$42,000, respectively, of interest expense primarily on the loan from the Company's president, offset by approximately \$83,000 and \$27,000, respectively, of interest income earned on the Company's cash balances.

#### Research and Development Expenses

The Company's research and development efforts involve Multikine and LEAPS. The table below shows the research and development expenses associated with each project.

|           | Nine months ended June 30, |                 | Three months ended June 30, |                |
|-----------|----------------------------|-----------------|-----------------------------|----------------|
|           | 2016                       | 2015            | 2016                        | 2015           |
| MULTIKINE | \$14,344,946               | \$15,326,179(a) | \$4,743,319                 | \$5,593,709(a) |
| LEAPS     | 291,251                    | 375,807         | 94,789                      | 133,868        |
| TOTAL     | \$14,636,197               | \$15,701,986    | \$4,838,108                 | \$5,727,577    |

(a)

The above Multikine expense amounts include depreciation relating to research and development equipment, which in prior years was included as a separate line item on the Statement of Operations. For the nine and three months ended June 30, 2015, depreciation expenses totaling \$119,053, and \$35,009, respectively, were reclassified to Multikine research and development expenses to be consistent with the current year presentation.

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 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 and stock-based compensation. For more information regarding the Company's critical accounting estimates and policies, see Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended September 30, 2015. The application of these critical accounting policies and estimates has been discussed with the Audit Committee of the Company's Board of Directors.

#### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company had a loan from its president that bore interest at 9%. This loan was paid on January 12, 2016. 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 June 30, 2016. 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 June 30, 2016.

#### 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 nine months of fiscal year 2016. There was no change in the Company's internal control over financial reporting during the nine months ended June 30, 2016.





PART II

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuance of Restricted Stock

During the nine months ended June 30, 2016 the Company issued 647,000 restricted shares of common stock to consultants for investor relations services from the Stock Bonus Plans.

The Company relied upon the exemption provided by Section 4(a)(2) of the Securities Act of 1933 with respect to the issuance of these shares. The individuals who acquired these shares were sophisticated investors and were provided full information regarding the Company's business and operations. There was no general solicitation in connection with the offer or sale of these securities. The individuals who acquired these shares acquired them for their own accounts. The certificates representing these shares bear a restricted legend providing that they cannot be sold except pursuant to an effective registration statement or an exemption from registration. No commission or other form of remuneration was given to any person in connection with the issuance of these shares.

Item 6. (a) Exhibits

| Number | Exhibit                       |
|--------|-------------------------------|
| 31     | Rule 13a-14(a) Certifications |
| 32     | Section 1350 Certifications   |
| 28     |                               |



SIGNATURES

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

CEL-SCI CORPORATION

Date: August 9, 2016 By: /s/ Geert Kersten  
Geert Kersten  
Principal Executive Officer\*

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