

CALMARE THERAPEUTICS Inc
Form 10-Q
December 02, 2015

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, 2015

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 001-08696

CALMARE THERAPEUTICS INCORPORATED

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(Exact name of registrant as specified in its charter)

www.calmaretherapeutics.com

Delaware

36-2664428

(State or other jurisdiction of incorporation or organization)

(I. R. S. Employer Identification No.)

1375 Kings Highway East, Suite 400 Fairfield,
Connecticut 06824

(Address of principal executive offices)

(Zip Code)

(203) 368-6044

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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) has 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 during the preceding 12 months.

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 definition of "accelerated filer, large accelerated filer and smaller reporting company" as defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

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

Yes No

The number of shares of the registrant's common stock outstanding as of November 30, 2015 was 28,395,888 shares.

CALMARE THERAPEUTICS INCORPORATED

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PART I. FINANCIAL INFORMATION**Item 1. Condensed Consolidated Interim Financial Statements****CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY**

Condensed Consolidated Balance Sheets

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current Assets:		
Cash	\$75,148	\$5,745
Receivables, net of allowance of \$317,659 at June 30, 2015 and December 31, 2014	1,048	2,319
Inventory	4,098,220	4,118,220
Prepaid expenses and other current assets	100,660	253,102
Total current assets	4,275,076	4,379,386
Property and equipment, net	27,277	35,640
Security deposits	15,000	15,000
TOTAL ASSETS	\$4,317,353	\$4,430,026
Liabilities and Shareholders' Deficit		
Current Liabilities:		
Accounts payable	\$1,718,733	\$1,346,138
Liabilities under claims purchase agreement	1,995,320	1,995,320
Accounts payable, GEOMC	4,182,380	4,182,380
Accrued expenses and other liabilities	1,979,869	1,590,182
Notes payable	2,800,878	2,536,830
Deferred revenue	13,781	19,686
Series C convertible preferred stock derivative liability	77,080	66,177
Series C convertible preferred stock liability	375,000	375,000
Total current liabilities	13,143,041	12,111,713
Note payable – long-term	62,289	56,659
Commitments and Contingencies		
Shareholders' deficit:	60,675	60,675

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5% preferred stock, \$25 par value, 35,920 shares authorized, 2,427 shares issued and outstanding		
Series B preferred stock, \$0.001 par value, 20,000 shares authorized, no shares issued and outstanding	—	—
Series C convertible preferred stock, \$1,000 par value, 750 shares authorized, 375 shares issued and outstanding	—	—
Common stock, \$.01 par value, 40,000,000 shares authorized, 28,366,478 shares issued and outstanding at June 30, 2015 and 25,908,978 shares issued and outstanding at December 31, 2014	283,664	259,089
Capital in excess of par value	48,243,662	47,634,857
Accumulated deficit	(57,475,978)	(55,692,967)
Total shareholders' deficit	(8,887,977)	(7,738,346)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$4,317,353	\$4,430,026

See accompanying notes

PART I. FINANCIAL INFORMATION (Continued)**CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY**

Condensed Consolidated Statements of Operations

(Unaudited)

	Three months ended June 30, 2015	Three months ended June 30, 2014
Revenue		
Product sales	\$ 200,000	\$ 316,000
Cost of product sales	45,943	98,148
Gross profit from product sales	154,057	217,852
Other Revenue		
Retained royalties	2,256	2,348
Other income	17,026	13,653
Total other revenue	19,282	16,001
Operating expenses		
Selling expenses	43,104	66,032
Personnel and consulting expenses	366,901	424,121
General and administrative expenses	326,522	317,305
Total operating expenses	736,527	807,458
Operating loss	(563,188)	(573,605)
Other expense		
Interest expense	204,669	112,895
Interest expense – accelerated upon conversion of OID notes	—	35,109
Loss on conversion of notes	—	43,288
Unrealized loss on derivative instruments	10,903	25,952

Total other expense	215,572		217,244	
Loss before income taxes	(778,760)	(790,849)
Provision (benefit) for income taxes	—		—	
Net loss	\$ (778,760)	\$ (790,849)
Basic and diluted loss per share	\$ (0.03)	\$ (0.03)
Basic and diluted weighted average number of common shares outstanding:	27,862,908		23,082,699	

See accompanying notes

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Condensed Consolidated Statements of Operations

(Unaudited)

	Six months ended June 30, 2015	Six months ended June 30, 2014
Revenue		
Product sales	\$ 207,950	\$ 537,080
Cost of product sales	48,240	168,366
Gross profit from product sales	159,710	368,714
Other Revenue		
Retained royalties	4,648	4,952
Other income	25,533	17,474
Total other revenue	30,181	22,426
Operating expenses		
Selling expenses	44,340	138,026
Personnel and consulting expenses	874,379	819,144
General and administrative expenses	650,161	511,026
Total operating expenses	1,568,880	1,468,196
Operating loss	(1,378,989)	(1,077,056)
Other expense		
Interest expense	390,531	217,681
Interest expense – accelerated upon conversion of OID notes	—	35,109
Loss on settlement of note and warrant	—	132,301
Loss on conversion of notes	2,588	43,288
Unrealized loss on derivative instruments	10,903	11,720

Total other expense	404,022		440,099	
Loss before income taxes	(1,783,011))	(1,517,155)
Provision (benefit) for income taxes	—		—	
Net loss	\$ (1,783,011))	\$ (1,517,155))
Basic and diluted loss per share	\$ (0.07))	\$ (0.07))
Basic and diluted weighted average number of common shares outstanding:	27,318,467		21,567,885	

See accompanying notes

PART I. FINANCIAL INFORMATION (Continued)**CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY**

Condensed Consolidated Statement of Changes in Shareholders' Deficit

For the Six Months Ended June 30, 2015

(Unaudited)

	Preferred Stock		Common Stock		Capital	Accumulated	Total
	Shares	Amount	Shares	Amount	in excess	deficit	shareholders'
	outstanding		outstanding		of par value		deficit
Balance January 1, 2015	2,427	\$ 60,675	25,908,978	\$ 259,089	\$ 47,634,857	\$(55,692,967)	\$(7,738,346)
Net loss	—	—	—	—	—	(1,783,011)	(1,783,011)
Common stock issued to directors	—	—	12,500	125	2,000	—	2,125
Stock option compensation expense	—	—	—	—	24,175	—	24,175
Common stock issued for consulting services	—	—	620,000	6,200	101,400	—	107,600
Warrants issued for consulting services	—	—	—	—	75,000	—	75,000
Private offering of common stock and warrants	—	—	1,825,000	18,250	346,750	—	365,000
Warrant and beneficial conversion feature on notes payable	—	—	—	—	59,480	—	59,480
Balance June 30, 2015	2,427	\$ 60,675	28,366,478	\$ 283,664	\$ 48,243,662	\$(57,475,978)	\$(8,887,977)

See accompanying notes

PART I. FINANCIAL INFORMATION (Continued)**CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY**

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six months ended June 30, 2015	Six months ended June 30, 2014
Cash flows from operating activities:		
Net loss	\$ (1,783,011)	\$ (1,517,155)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,363	6,346
Stock option compensation expense	24,175	41,123
Share-based compensation – common stock	2,125	4,038
Common stock and warrants issued to consultants	182,600	—
Debt discount amortization	112,069	169,436
Noncash finance charges	—	18,434
Unrealized loss on derivative instruments	10,903	11,720
Loss on conversion of notes	2,588	43,288
Loss on settlement of note and warrant	—	132,301
Changes in assets and liabilities:		
Receivables	1,271	211
Prepaid expenses and other current assets	152,442	7,859
Inventory	20,000	70,000
Accounts payable, accrued expenses and other liabilities	762,283	456,927
Deferred revenue	(5,905)	13,287
Net cash used in operating activities	(510,097)	(542,185)
Cash flows from investing activities:		
Purchase of property and equipment	—	(46,424)
Cash used in investing activities	—	(46,424)
Cash flows from financing activities:		
Proceeds from notes payable	257,000	120,000
Repayment of note and warrant settlement	(42,500)	(242,000)
Proceeds from common stock and warrants	365,000	670,000
Net cash provided by financing activities	579,500	548,000
Net increase (decrease) in cash	69,403	(40,609)

Cash at beginning of period	5,745	57,009
Cash at end of period	\$ 75,148	\$ 16,400

Supplemental disclosure of non-cash transactions:

During the quarter ended March 31, 2015, the Company issued 500,000 shares with a fair value of \$80,000 to an advisory firm for consulting services. The Company is amortizing the \$80,000 over the service period and recorded \$20,000 and \$40,000 of expense in the quarter and six months ended June 30, 2015, respectively.

During the quarter ended March 31, 2015, the Company issued 120,000 shares to an advisory firm for consulting services. The shares vested in two tranches, with 60,000 shares vesting in the quarter ended December 31, 2014 and remaining 60,000 shares vesting in the quarter ended March 31, 2015. The Company recorded consulting expenses of \$10,800 in the quarter ended December 31, 2014 and \$27,600 of consulting expenses in the quarter ended March 31, 2015. In each instance, the expense was based on the fair value on the vesting date.

During the quarter ended March 31, 2015, the Company issued 333,333 stock warrants for consulting services performed and recorded consulting expense of \$75,000 for the fair value of the warrants.

During the quarter ended March 31, 2015, the Company allocated \$59,480 of convertible note proceeds for the fair value of warrants and beneficial conversion feature to additional paid-in capital.

In June 2014, the Company issued 798,825 shares of common stock upon conversion of OID notes (see Note 11).

In September 2013 the Company issued 1,618,235 shares of the Company's common stock to ASC Recap. During September and October 2013, ASC Recap sold the Company's common stock and during the three months ended March 31, 2014 paid creditors approximately \$80,000 from the proceeds and retained a service fee of approximately \$27,000 (see Note 10).

See accompanying notes

PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

1. BASIS OF PRESENTATION

The interim condensed consolidated financial information presented in the accompanying condensed consolidated financial statements and notes hereto is unaudited.

Effective August 20, 2014, Competitive Technologies, Inc. changed its name to Calmare Therapeutics Incorporated.

Calmare Therapeutics Incorporated (“CTI”) and its majority-owned (56.1%) subsidiary, Vector Vision, Inc. (“VVI”), (collectively, the “Company”, “we” or “us”) is a biotechnology company developing and commercializing innovative products and technologies. CTI is the licensed distributor of the non-invasive Calmare[®] pain therapy device (the “Calmare Device”), which was developed to treat neuropathic and cancer-derived pain.

These consolidated financial statements include the accounts of CTI and VVI. Inter-company accounts and transactions have been eliminated in consolidation.

We believe we have made all adjustments necessary, consisting only of normal recurring adjustments, to present the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the U.S. The results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that can be expected for the full year ending December 31, 2015.

The interim unaudited condensed consolidated financial statements and notes thereto, should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission (“SEC”) on June 24, 2015.

During the three and six months ended June 30, 2015, we had a significant concentration of revenues from the Calmare® Device. The percentages of gross revenue attributed to sales and rentals of Calmare Devices, in the three and six months ended June 30, 2015, were 94% and 92%, respectively; and 98% in both the three and six months ended June 30, 2014. Additionally, the percentage of gross revenue attributed to other Calmare Device related sales of equipment and training, in the three and six months ended June 30, 2015, was 5% and 6%, respectively; and 1%, in both the three and six months ended June 30, 2014. We continue to attempt to expand our sales activities for the Calmare Device and expect the majority of our revenues to come from this technology.

The Company has incurred operating losses since fiscal 2006 and has a working capital and shareholders' deficiency at June 30, 2015. The Company has taken steps to reduce its operating expenses as well as increase revenue from sales of Calmare Devices and related sales. However, even at the reduced spending levels, should the anticipated increase in revenue from sales of Calmare Devices and related sales not occur the Company may not have sufficient cash flow to fund operations through 2015 and into 2016. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments to reflect the possible future effect of the recoverability and classification of assets or amounts and classifications of liabilities that may result from the outcome of this uncertainty.

The Company's continuation as a going concern is dependent upon its developing recurring revenue streams sufficient to cover operating costs. The Company does not have any significant individual cash or capital requirements in the budget going forward. If necessary, CTI will attempt to meet anticipated operating cash requirements by further reducing costs, issuing debt and/or equity, and/or pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining legacy portfolio of technologies. There can be no assurance that the Company will be successful in such efforts. Failure to develop a recurring revenue stream sufficient to cover operating expenses could negatively affect the Company's financial position.

PART I. FINANCIAL INFORMATION (Continued)**CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY**

Our liquidity requirements arise principally from our working capital needs, including funds needed to sell our current technologies and obtain new technologies or products, and protect and enforce our intellectual property rights, if necessary. We fund our liquidity requirements with a combination of cash on hand, debt and equity financing, sales of common stock and cash flows from operations, if any, including royalty legal awards. At June 30, 2015, the Company had outstanding debt in the form of promissory notes with a total principal amount of \$3,477,000 and a carrying value of \$3,349,000.

The Company acquired the exclusive, worldwide rights to the *Scrambler Therapy*® technology in 2007. The Company's original 2007 agreement with Giuseppe Marineo (the "Scrambler Therapy Agreement"), an inventor of *Scrambler Therapy* technology, and Delta Research and Development ("Delta"), authorized CTI to manufacture and sell worldwide the device developed from the patented *Scrambler Therapy* technology. The original agreement was amended in 2011 to provide the Company with exclusive rights to the *Scrambler Therapy* technology through March 31, 2016. In July 2012, the Company attempted to negotiate a five-year extension to the agreement with Marineo and Delta (the "2012 Amendment"). However, the Company believes that the 2012 Amendment is neither valid nor enforceable as it was never duly signed or authorized and subsequently deemed null and void (see Footnote 13. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES, *CTI's Distribution Rights, Marineo and Delta*). The *Scrambler Therapy* technology is patented in Italy and in the U.S. Applications for patents have been filed internationally as well and are pending approval. The Calmare Device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance. CTI's partner, GEOMC Co., Ltd. ("GEOMC") of Korea, is manufacturing the product commercially under a ten (10) year agreement through 2017. Sales of these devices are expected to provide a significant proportion of the Company's revenue through the term of the agreement.

2. NET LOSS PER COMMON SHARE

The following sets forth the denominator used in the calculations of basic net loss per share and net loss per share assuming dilution:

	Three months ended	Three months ended	Six months ended	Six months ended
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Denominator for basic net loss per share, weighted average shares outstanding	27,862,908	23,082,699	27,318,467	21,567,885

Dilutive effect of common stock options	N/A	N/A	N/A	N/A
Dilutive effect of Series C convertible preferred stock, convertible debt and warrants	N/A	N/A	N/A	N/A
Denominator for diluted net loss per share, weighted average shares outstanding	27,862,908	23,082,699	27,318,467	21,567,885

Due to the net loss incurred for the three and six months ended June 30, 2015, and 2014, the denominator used in the calculation of basic net loss per share was the same as that used for net loss per share, assuming dilution, since the effect of any options, convertible preferred shares, convertible debt or warrants would have been anti-dilutive.

Potentially dilutive securities outstanding are summarized as follows:

	June 30, 2015	June 30, 2014
Exercise of common stock options	1,742,500	1,708,500
Exercise of common stock warrants	6,452,248	2,818,890
Conversion of Series C convertible preferred stock	1,329,646	1,297,578
Conversion of convertible debt	6,305,390	4,649,011
Total	15,829,784	10,473,979

PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue From Contracts With Customers*, as amended by ASU 2015-14, that outlines a single comprehensive model for entities to use in accounting for revenue recognition and supersedes most current revenue recognition guidance, including industry-specific guidance. The amendments in this accounting standard update are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. The amendments in this accounting standard update are effective for interim and annual reporting periods beginning after December 15, 2017; with early adoption permitted after December 15, 2016. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern*, which provides guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and the related footnote disclosure. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financials are issued. When management identifies conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern, the ASU also outlines disclosures that are required in the company’s footnotes based on whether or not there are any plans intended to mitigate the relevant conditions or events to alleviate the substantial doubt. The ASU becomes effective for annual periods ending after December 15, 2016, and for any annual and interim periods thereafter. Early application is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory – Simplifying the Measurement of Inventory*, which requires that inventory be measured at the lower of cost and net realizable value. Prior to the issuance of the new guidance, inventory was measured at the lower of cost or market. Replacing the concept of market with the single measurement of net realizable value is intended to create efficiencies for preparers. Inventory measured using the last-in, first-out (LIFO) method and the retail inventory method are not impacted by the new guidance. The ASU becomes effective for fiscal years beginning after December 15, 2016, including interim periods with those fiscal years. Early application is permitted. We do not expect the adoption to have a material impact on our consolidated financial statements.

4. RECEIVABLES

Receivables consist of the following:

	June 30, 2015	December 31, 2014
Calmare device sales receivable, net of allowance of \$209,533 at June 30, 2015 and December 31, 2014	\$ —	\$ —
Royalties, net of allowance of \$101,154 at June 30, 2015 and December 31, 2014	—	—
Other, net of allowance of \$6,972 at June 30, 2015 and December 31, 2014	1,048	2,319
Total	\$ 1,048	\$ 2,319

5. AVAILABLE-FOR-SALE AND EQUITY SECURITIES

The fair value of the equity securities we held were categorized as available-for-sale securities, which were carried at a fair value of zero, consisted of shares in Security Innovation and Xion Pharmaceutical Corporation (“Xion”). We own 223,317 shares of stock in the privately held Security Innovation, an independent provider of secure software located in Wilmington, MA.

In September 2009 we announced the formation of a joint venture with Xion for the commercialization of our patented melanocortin analogues for treating sexual dysfunction and obesity. CTI currently owns 60 shares of common stock or 30% of the outstanding stock of privately held Xion. The Company has been notified that Xion Pharmaceutical Corporation will be dissolved in 2015 with no financial impact to the Company.

6. FAIR VALUE MEASUREMENTS

The Company measures fair value in accordance with Topic 820 of the FASB Accounting Standards Codification (“ASC”), Fair Value Measurement (“ASC 820”), which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement

PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company values its derivative liability associated with the variable conversion feature on its Series C Convertible Preferred Stock (Note 12) based on the market price of its common stock. For each reporting period the Company calculates the amount of potential common stock that the Series C Preferred Stock could convert into based on the conversion formula (incorporating market value of our common stock) and multiplies those converted shares by the market price of its common stock on that reporting date. The total converted value is subtracted by the consideration paid to determine the fair value of the derivative liability. The Company classified the derivative liability of approximately \$77,000 at June 30, 2015 and \$66,000 at December 31, 2014, in Level 2 of the fair value hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value could result in a different fair value measurement at the reporting date.

The carrying amounts reported in our Condensed Consolidated Balance Sheet for cash, accounts receivable, notes payable, deferred revenue, and preferred stock liability approximate fair value due to the short-term maturity of those financial instruments.

7. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	June 30, 2015	December 31, 2014
Prepaid insurance	\$ 16,240	\$ 71,651
Prepaid consulting services	40,000	37,500

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Clinical trial	27,119	109,119
Other	17,301	34,832
Prepaid expenses and other current assets	\$ 100,660	\$ 253,102

PART I. FINANCIAL INFORMATION (Continued)**CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY****8. PROPERTY AND EQUIPMENT**

Property and equipment, net, consist of the following:

	June 30, 2015	December 31, 2014
Property and equipment, gross	\$215,491	\$ 215,491
Accumulated depreciation and amortization	(188,214)	(179,851)
Property and equipment, net	\$27,277	\$ 35,640

Depreciation and amortization expense was \$3,904 and \$8,363, respectively, during the three and six months ended June 30, 2015, and \$4,522 and \$6,346, respectively, for the three and six months ended June 30, 2014.

9. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	June 30, 2015	December 31, 2014
Royalties payable	\$340,139	\$ 314,787
Accrued compensation	81,271	23,573
Accrued interest payable	1,264,367	987,659
Other	294,092	264,163
Accrued expenses and other liabilities, net	\$1,979,869	\$ 1,590,182

Excluded above is approximately \$217,000 of accrued expenses and other liabilities at June 30, 2015 and December 31, 2014, that fall under the Liability Purchase Agreement (“LPA”) with ASC Recap, LLC (“ASC Recap”), and are expected to be repaid using the process as described in Note 10. Because there can be no assurance that the Company will be successful in completing this process, the Company retains ultimate responsibility for these liabilities, until fully paid down.

10. LIABILITIES ASSIGNED TO LIABILITY PURCHASE AGREEMENT

During 2013, the Company negotiated a LPA with Southridge, Partners II, L.P. (“Southridge”). The LPA takes advantage of a provision in the Securities Act of 1933, Section 3(a)(10), that allows the exchange of claims, securities, or property for stock when the arrangement is approved for fairness by a court proceeding. The process, approved by the court in August 2013, has the potential to eliminate nearly \$2.1 million of our financial obligations to existing creditors who agreed to participate and executed claims purchase agreements with Southridge’s affiliate ASC Recap accounting for \$2,093,303 of existing payables, accrued expenses and other current liabilities, and notes payable. The process began with the issuance in September 2013 of 1,618,235 shares of the Company’s common stock to ASC Recap. During September and October 2013, ASC Recap sold the Company’s common stock and during the three months ended March 31, 2014 paid creditors approximately \$80,000 from the proceeds and retained a service fee of approximately \$27,000. During 2014, the Company also made cash payments of \$18,000 for accrued expenses previously included in the LPA amount. As of November 30, 2015, no further shares of the Company’s common stock had been issued to ASC Recap to settle creditors’ balances.

There can be no assurance that the Company will be successful in completing this process with Southridge, and the Company retains ultimate responsibility for this debt, until fully paid.

PART I. FINANCIAL INFORMATION (Continued)**CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY****11. NOTES PAYABLE**

Notes payable consist of the following:

	June 30, 2015	December 31, 2014
90 day Convertible Notes (Chairman of the Board)	\$ 2,498,980	\$ 2,498,980
24 month Convertible Notes (\$100,000 to Board member)	225,000	225,000
10 day Note (Board member)	—	42,500
Series A3 15% OID Convertible Notes and Warrants	14,353	11,765
Series B OID Convertible Notes and Warrants	62,289	56,659
1 Year 15% OID Convertible Notes and Warrants	548,525	244,565
Notes Payable, gross	3,349,147	3,079,469
Less LPA amount	(485,980)	(485,980)
Notes Payable, net	\$ 2,863,167	\$ 2,593,489

Details of notes payable as of June 30, 2015 are as follows:

	Principal Amount	Carrying Value	Cash Interest Rate	Common Stock Conversion Price	Maturity Date
90 day Convertible Notes (Chairman of the Board)	\$2,498,980	\$2,498,980	6	1.05	Various 2014
24 month Convertible Notes (\$100,000 to Board member)	225,000	225,000	6	1.05	March 2014 – June 2014
Series A3 15% OID Convertible Notes and Warrants	11,765	(1) 14,353	(1) None	0.25	January 2015
Series B OID Convertible Notes and Warrants	80,000	62,289	None	0.23	March 2017
1 Year 15% OID Convertible Notes and Warrants	661,177	548,525	None	0.20	Aug. 2015 – Feb. 2016
Notes Payable, gross	\$3,476,922	3,349,147			
Less LPA amount		(485,980)			
Notes Payable, net		\$2,863,167			

(1) Includes \$2,588 of accrued loss on conversion of OID note.

PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

90 day Convertible Notes

The Company has issued 90-day notes payable to borrow funds from a director, now the chairman of our Board, as follows:

2013	\$ 1,188,980
2012	1,210,000
2011	100,000
Total	\$ 2,498,980

These notes have been extended several times and all bear 6.00% simple interest. A conversion feature was added to the Notes when they were extended, which allows for conversion of the eligible principal amounts to common stock at any time after the six month anniversary of the effective date – the date the funds are received – at a rate of \$1.05 per share. Additional terms have been added to all Notes to include additional interest of 1% simple interest per month on all amounts outstanding for all Notes if extended beyond their original maturity dates and to provide the lender with a security interest in unencumbered inventory and intangible assets of the Company other than proceeds relating to the Calmare Device and accounts receivable.

Due to the Board's February 10, 2014 decision authorizing management to nullify certain actions taken by prior management, the additional terms noted above were not approved and therefore, the additional interest for the extension of the Notes was not recorded. During 2014 and 2015, management has been in negotiations to modify the terms of the Notes. However, until those negotiations are resolved, the Company has agreed to honor the additional terms and as such, the Company recorded additional interest of approximately \$188,000 during the six months ended June 30, 2015, and has recorded additional interest in total of \$807,000.

A total of \$485,980 of the aforementioned notes issued between December 1, 2012 and March 31, 2013 fall under the LPA with ASC Recap, and are expected to be repaid using the process as described in Note 10. Because there can be no assurance that the Company will be successful in completing this process, the Company retains ultimate responsibility for this debt, until fully paid down. As a result, the Company continues to accrue interest on these notes and they remain convertible as described above.

24 month Convertible Notes

In March 2012, the Company issued a 24-month convertible promissory note to borrow \$100,000. Additional 24-month convertible promissory notes were issued in April 2012 (\$25,000) and in June 2012 (\$100,000). All of the notes bear 6.00% simple interest. Conversion of the eligible principal amounts to common stock is allowed at any time at a rate of \$1.05 per share.

As of November 30, 2015 the Company has not repaid the principal due on the March 2012 \$100,000 note, the April 2012 \$25,000 note or the June 2012 \$100,000 note and is in default under the terms of the notes. As of June 30, 2015, there is also unpaid interest of \$25,000 related to these notes.

10 day Note

In late December 2014, the Company issued a 10 day non-interest bearing note to a Board member in the amount of \$42,500. This note was repaid in early January 2015.

PART I. FINANCIAL INFORMATION (Continued)
CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Series A 15% Original Issue Discount (“OID”) Convertible Notes and Warrants

During the quarter ended March 31, 2014, the Company did a private offering of a third tranche of convertible notes and warrants, under which it issued \$64,706 of convertible promissory notes for consideration of \$55,000, the difference between the proceeds from the notes and principal amount consists of \$9,706 of original issue discount. The notes are convertible at an initial conversion price of \$0.25 per share any time after issuance thereby having an embedded beneficial conversion feature.

The note holders were also issued market-related warrants for 129,412 in shares of common stock. The warrants have an exercise price of \$0.60 and a term of 2 years. The beneficial conversion feature, if any, and the warrants were recorded to additional paid-in-capital. The Company allocated the proceeds received to the notes, the beneficial conversion feature and the warrants on a relative fair value basis at the time of issuance. The total debt discount is amortized over the life of the notes to interest expense.

The beneficial conversion feature was valued at the intrinsic value on the issuance date. The intrinsic value represents the difference between the conversion price and the fair value of the common stock multiplied by the number of share into which the note is convertible. We estimated the fair value of the warrants on the issue date using a Black-Scholes pricing model with the following assumptions:

	Warrants	
Expected term	2 years	
Volatility	184.88	%
Risk Free Rate	0.32	%

The proceeds of the Notes issued during the three months ended March 31, 2014 were allocated to the components as follows:

Proceeds
allocated
at issue
date

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Private Offering Notes	\$ 32,390
Private Offering Warrants	14,845
Beneficial Conversion feature	7,765
Total	\$ 55,000

During the quarter ended June 30, 2014, certain holders of OID convertible notes and warrants delivered to the Company a notice of conversion related to the OID convertible notes. Due to the timing of receipt of the notices by the Company, certain Note holders (“Noteholders”) received their shares during the quarter ended June 30, 2014, while other Noteholders received or are due to receive their shares after June 30, 2014. Additionally, the Company offered certain Noteholders an inducement to convert their notes to shares. The inducement, when offered, provided Noteholders a conversion price of \$0.20. All other original terms, including the warrant terms, remained the same. Upon notice of conversion and irrespective of whether the shares were delivered in the quarter ended June 30, 2014 or subsequent to June 30, 2014 to the Company: (i) accelerated and recognized as interest expense in the current period any remaining discount, and (ii) recognized a loss for the fair value of the additional shares offered as the conversion inducement.

Presented below is summary information related to the conversion:

Statement of Operations

Loss on conversion of notes	\$43,288
Accelerated interest expense	\$35,109

Balance Sheet

Shares issued as of June 30, 2014	798,825
Shares to be issued subsequent to June 30, 2014	529,415
Principal amount of notes converted	\$265,648

During the quarter ended March 31, 2015, a holder of OID convertible notes and warrants delivered to the Company a notice of conversion related to the OID convertible notes. Additionally, the Company offered the Noteholder an inducement to convert his/her notes to shares. The inducement provided the Noteholder a conversion price of \$0.20. All other original terms, including the warrant terms, remained the same. Upon notice of conversion, the Company: (i) accelerated and recognized as interest expense in the current period any remaining discount, and (ii) recognized a loss for the fair value of the additional shares offered as the conversion inducement. As of June 30, 2015, the Company had not issued the shares due related to the conversion notice.

PART I. FINANCIAL INFORMATION (Continued)
CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Presented below is summary information related to the conversion:

Statement of Operations

Loss on conversion of notes	\$2,588
Accelerated interest expense	\$—

Balance Sheet

Shares issued	—
Principal amount of notes converted	\$11,765

Series B Original Issue Discount Convertible Notes and Warrants

During the quarter ended March 31, 2014, the Company did a private offering of convertible notes and warrants, under which it issued \$80,000 of convertible promissory notes for consideration of \$65,000, the difference between the proceeds from the notes and principal amount consists of \$15,000 of original issue discount. The notes are convertible at an initial conversion price of \$0.35 per share any time after issuance thereby having an embedded beneficial conversion feature. The note holders were also issued market-related warrants for 185,714 in shares of common stock. The warrants have an exercise price of \$0.45 and a 4-year term. The beneficial conversion feature and the warrants were recorded to additional paid-in-capital. The Company allocated the proceeds received to the notes, the beneficial conversion feature and the warrants on a relative fair value basis at the time of issuance. The total debt discount is amortized over the life of the notes to interest expense.

The beneficial conversion feature was valued at the intrinsic value on the issuance date. The intrinsic value represents the difference between the conversion price and the fair value of the common stock multiplied by the number of share into which the note is convertible. We estimated the fair value of the warrants on the issue date using a Black-Scholes pricing model with the following assumptions:

	Warrants
	March
	20,
	2014
Expected term	4 years
Volatility	151.52 %

Risk Free Rate 1.32 %

The proceeds of the Notes were allocated to the components as follows:

	Proceeds allocated at issue date
Private Offering Notes	\$ 34,272
Private Offering Warrants	26,811
Beneficial Conversion feature	3,917
Total	\$ 65,000

The Series B OID notes include an anti-dilution provision that if the Company issues more than 20 million shares of its common stock, subject to certain exceptions, the conversion price of the notes and the conversion price of the warrants would be subject to an automatic pre-determined price adjustment. During the quarter ended December 31, 2014 the Series B OID noteholder and the Company agreed that this anti-dilution provision had been triggered and the OID note share conversion price was adjusted down to \$0.23 per share, which increased the number of shares available upon conversion to 347,826. The anti-dilution provision in the Warrant changed the share purchase price downward to \$0.33 per share but did not change the number of shares available under the Warrant.

As a result of the triggering of the above noted one time anti-dilution provision, the Company reallocated the proceeds of the Notes during the quarter ended December 31, 2014 as follows:

	Proceeds allocated at issue date
Private Offering Notes	\$ 46,222
Private Offering Warrants	18,778
Beneficial Conversion feature	—
Total	\$ 65,000

1 Year 15% OID Convertible Notes and Warrants

During the quarter ended March 31, 2015, the Company did an additional private offering of convertible notes and warrants, under which it issued \$302,353 of convertible promissory notes for consideration of \$257,000, the difference between the proceeds from the notes and principal amount consists of \$45,353 of original issue discount. The notes are convertible at an initial conversion price of \$0.20 per share any time after issuance thereby having an

embedded beneficial conversion feature. The note holders were also issued market-related warrants for 755,882 in shares of common stock. The warrants have an exercise price of \$0.60 and a 1-year term. The beneficial conversion feature and the warrants were recorded to additional paid-in-capital. The Company allocated the proceeds received to the notes, the beneficial conversion feature and the warrants on a relative fair value basis at the time of issuance. The total debt discount is amortized over the life of the notes to interest expense.

The beneficial conversion feature was valued at the intrinsic value on the issuance date. The intrinsic value represents the difference between the conversion price and the fair value of the common stock multiplied by the number of shares into which the note is convertible. We estimated the fair value of the warrants on the issue date using a Black-Scholes pricing model with the following assumptions:

Warrants three months ended March 31, 2015		
Expected term	1 year	
Volatility	180.15-185.71	%
Risk Free Rate	0.18-0.22	%

The proceeds of the Notes were allocated to the components as follows:

	Proceeds allocated at issue date
Private Offering Notes	\$ 197,521
Private Offering Warrants	46,097
Beneficial Conversion feature	13,382
Total	\$ 257,000

During the quarter ended June 30, 2015, a holder of OID convertible notes and warrants delivered to the Company a notice of conversion related to the OID convertible notes, with a principal amount of \$5,882. As of June 30, 2015, the Company had not issued the shares due related to the conversion notice. The shares were issued in September 2015.

Tonaquint 9% Original Issue Discount Convertible Notes and Warrants

During the quarter ended September 30, 2013, the Company entered into a securities purchase agreement with Tonaquint, Inc., under which it was issued a \$112,500 convertible promissory note in consideration for \$100,000, the difference between the proceeds from the Note and the principal amount consisted of a \$10,000 original issue discount and a carried transaction expense of \$2,500. The original issue discount was being amortized over the life of the note. The note was convertible at an initial conversion price of \$0.30 per share at any time, and contained a “down-round protection” feature that requires the valuation of a derivative liability associated with the note. The note bore interest at 7% and was due in May 2014. Tonaquint was also issued a market-related warrant for \$112,500 in shares of common stock with a “cashless” exercise feature. The warrant had a \$0.35 exercise price, a 5-year term and included a “down-round protection” feature that required it to be classified as a liability rather than as equity.

During the first quarter of 2014 the Company executed a debt settlement agreement with Tonaquint related to the note and warrant. The warrant was settled during the first quarter of 2014 for a cash payment of \$98,000, resulting in a loss of \$98,000. The note was settled during the second quarter of 2014 for cash payments totaling \$144,000 (\$20,000 paid in the first quarter of 2014 and \$124,000 paid in the second quarter of 2014). Because the execution of the debt settlement agreement in the first quarter of 2014 resulted in a significant modification of the original terms of the note agreement, the Company adjusted the carrying value of the note in the first quarter of 2014 and recorded a related loss of approximately \$34,000.

Southridge

During 2013, the Company issued a six-month \$12,000 convertible note payable to Southridge to cover legal expenses as part of the LPA. The convertible note was convertible into the Company’s common stock at the greater of \$0.25 or

85% of the average closing bid price during the five (5) trading days prior to conversion and was due in June 2014.

During the third quarter of 2014, the Company issued to Southridge 50,000 shares in exchange for and in full satisfaction for the note and recorded a \$5,500 loss upon conversion of the note.

PART I. FINANCIAL INFORMATION (Continued)
CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

12. SHAREHOLDERS' DEFICIENCY

Stock Option Plan

On May 2, 2011 the Company adopted and executed the Employees' Directors' and Consultants Stock Option Plan (the "Plan"). During the three months ended March 31, 2015, the Company granted 50,000 options to non-employee directors which were fully vested upon issuance. During the three months ended March 31, 2014, the Company granted 42,500 options to non-employee directors which were fully vested upon issuance. No options were granted during the three months ended June 30, 2015. During the three months ended June 30, 2014, the Company granted 320,000 options to employees. 20% of the options vested upon issuance and the remaining options vest ratably over a four (4) year period.

We estimated the fair value of each option on the grant date using a Black-Scholes option-pricing model with the following weighted average assumptions:

	Six-months ended June 30, 2015		Six-months ended June 30, 2014	
Dividend yield (1)	0.00	%	0.00	%
Expected volatility (2)	164.5	%	118.5-122.4	%
Risk-free interest rates (3)	1.61	%	1.19-1.72	%
Expected lives (2)	5.0 YEARS		4.0-5.0 YEARS	

- (1) We have not paid cash dividends on our common stock since 1981, and currently do not have plans to pay or declare cash dividends. Consequently, we used an expected dividend rate of zero for the valuations.
- (2) Estimated based on our historical experience. Volatility was based on historical experience over a period equivalent to the expected life in years.
- (3) Based on the U.S. Treasury constant maturity interest rate with a term consistent with the expected life of the options granted.

During the six months ended June 30, 2015, the Company recognized expense of \$7,963 for stock options issued to directors and recognized expense of \$8,106 and \$16,212, respectively, for the three and six months ended June 30, 2015, for stock options issued to employees.

During the six months ended June 30, 2014, the Company recognized expense of \$11,178 for stock options issued to directors and recognized expense of \$26,795 and \$29,945, respectively, for the three and six months ended June 30, 2014, for stock options issued to employees.

Preferred Stock

Holders of 5% preferred stock are entitled to receive, if, as, and when declared by the Board of Directors, out of funds legally available therefore, preferential non-cumulative dividends at the rate of \$1.25 per share per annum, payable quarterly, before any dividends may be declared or paid upon or other distribution made in respect of any share of common stock. The 5% preferred stock is redeemable, in whole at any time or in part from time to time, on 30 days' notice, at the option of the Company, at a redemption price of \$25. In the event of voluntary or involuntary liquidation, the holders of preferred stock are entitled to \$25 per share in cash before any distribution of assets can be made to holders of common stock.

Each share of 5% preferred stock is entitled to one vote. Holders of 5% preferred stock have no preemptive or conversion rights. The preferred stock is not registered to be publicly traded.

PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

The rights of the Series C Convertible Preferred Stock are as follows:

Dividend rights – The shares of Series C Convertible Preferred Stock accrue a 5% cumulative dividend on a quarterly basis and is payable on the last day of each fiscal quarter when declared by the Company's Board. As of

- a) June 30, 2015, dividends declared were \$93,748, of which \$4,675 and \$9,298, respectively, were declared during the three and six months ended June 30, 2015 and \$75,000 have not been paid and are shown in accrued and other liabilities at June 30, 2015.

Voting rights – Holders of these shares of Series C Convertible Preferred Stock shall have voting rights equivalent

- b) to 1,000 votes per \$1,000 par value Series C Convertible Preferred share voted together with the shares of Common Stock

- c) *Liquidation rights* – Upon any liquidation these Series C Convertible Preferred Stock shares shall be treated as equivalent to shares of Common stock to which they are convertible.

Conversion rights – Holder has right to convert each share of Series C Convertible Preferred Stock at any time into shares of the Company's common stock at a conversion price for each share of common stock equal to 85% of the lower of (a) the closing market price at the date of notice of conversion or (b) the mid-point of the last bid price

- d) and the last ask price on the date of the notice of conversion. The variable conversion feature creates an embedded derivative that was bifurcated from the Series C Convertible Preferred Stock on the date of issuance and was recorded at fair value. The derivative liability will be recorded at fair value on each reporting date with any change recorded in the Statement of Operations as an unrealized (gain) loss on derivative instrument.

The Company recorded a convertible preferred stock derivative liability of \$77,080 and \$66,177, respectively, associated with the 375 shares of Series C Convertible Preferred Stock outstanding at June 30, 2015 and December 31, 2014.

The Company has classified the Series C Convertible Preferred Stock as a liability at June 30, 2015 and December 31, 2014 because the variable conversion feature may require the Company to settle the conversion in a variable number of its common shares.

Common Stock

On October 15, 2015 the shareholders approved an increase in the number of authorized shares of common stock from 40 million to 100 million.

On August 14, 2014 the shareholders approved an amendment to the Company's certification of incorporation to effect up to a one-for-ten reverse stock split (the "reverse Stock Split" of the Company's issued and authorized outstanding common stock. The Board of Directors, in its sole discretion, has discretion to implement the Reverse Stock Split. As of November 20, 2015, the Board of Directors has not implemented the Reverse Stock Split.

During the quarter ended March 31, 2015, the Company did a private offering of its common stock and warrants, for consideration of \$75,000. 375,000 shares of common stock were issued at a per share price of \$0.20. The common stock holders were also issued warrants to purchase 187,500 shares of common stock. The warrants have an exercise price of \$0.60 and a 3-year term. The warrants were recorded to additional paid-in-capital.

During the quarter ended June 30, 2015, the Company did an additional private offering of its common stock and warrants, for consideration of \$290,000. 1,450,000 shares of common stock were issued at a per share price of \$0.20. The common stock holders were also issued warrants to purchase 725,000 shares of common stock. The warrants have an exercise price of \$0.60 and a 3-year term. The warrants were recorded to additional paid-in-capital.

During the quarter ended March 31, 2014, the Company did a private offering of its common stock and warrants, for consideration of \$500,000. 2,500,000 shares of common stock were issued at a per share price of \$0.20. The common stock holders were also issued warrants to purchase 1,250,000 shares of common stock. The warrants have an exercise price of \$0.60 and a 3-year term. The warrants were recorded to additional paid-in-capital.

During the quarter ended June 30, 2014, the Company did an additional private offering of its common stock and warrants, for consideration of \$170,000. 850,000 shares of common stock were issued at a per share price of \$0.20. The common stock holders were also issued warrants to purchase 425,000 shares of common stock. The warrants have an exercise price of \$0.60 and a 3-year term. The warrants were recorded to additional paid-in-capital.

During the quarter ended March 31, 2015, the Company issued 500,000 shares with a fair value of \$80,000 to an advisory firm for consulting services. The Company is amortizing the \$80,000 over the service period and recorded \$20,000 of expense in the quarter ended June 30, 2015 and \$40,000 of expense in the six months ended June 30, 2015.

During the quarter ended March 31, 2015, the Company issued 120,000 shares to an advisory firm for consulting services. The shares vested in two tranches, with 60,000 shares vesting in the quarter ended December 31, 2014 and

remaining 60,000 shares vesting in the quarter ended March 31, 2015. The Company recorded consulting expenses of \$10,800 in the quarter ended December 31, 2014 and \$27,600 of consulting expenses in the quarter ended March 31, 2015. In each instance, the expense was based on the fair value on the vesting date.

During the quarter ended March 31, 2015, the Company issued 333,333 stock warrants for consulting services performed and recorded consulting expense of \$75,000 for the fair value of the warrants.

PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

During the three months ended March 31, 2015 and 2014, the Company issued 12,500 and 10,625 shares of its common stock to non-employee directors under its Director Compensation Plan. The Company recorded expense of \$2,125 and \$4,038 for director stock compensation expense in the three months ended March 31, 2015 and 2014. No shares were issued during the three months ended June 30, 2015 and 2014. Additionally, no expense was recorded in the three months ended June 30, 2015 and 2014.

13. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

As of June 30, 2015, CTI and its majority owned subsidiary, VVI, have remaining obligations, contingent upon receipt of certain revenues, to repay up to \$165,788 and \$198,334, respectively, in consideration of grant funding received in 1994 and 1995. CTI also is obligated to pay at the rate of 7.5% of its revenues, if any, from transferring rights to certain inventions supported by the grant funds. VVI is obligated to pay at rates of 1.5% of its net sales of supported products or 15% of its revenues from licensing supported products, if any.

Contingencies – Litigation

Tim Conley (case pending) - On August 18, 2014, notice was issued to the Company that on June 23, 2014, Timothy Conley (the “Plaintiff”) filed a complaint against the Company, in the United States District Court for the District of Rhode Island. The complaint alleges that the Company’s former acting interim CEO, Johnnie Johnson, and Plaintiff entered into an agreement whereby the Company agreed to make payments to Plaintiff. Among other allegations, Plaintiff claims that the Company’s nonpayment to Plaintiff constitutes a breach of contract. The Company believes it has meritorious defenses to the allegations and the Company intends to vigorously defend against the litigation.

GEOMC (case pending) - On August 22, 2014, GEOMC filed a complaint against the Company in the United States District Court for the District of Connecticut. The complaint alleges that the Company and GEOMC entered into a security agreement whereby in exchange for GEOMC’s sale and delivery of the Scrambler Therapy devices (the “Devices”), the Company would grant GEOMC a security interest in the Devices. Among other allegations, GEOMC claims that the Company has failed to comply with the terms of the security agreement and seeks an order to the Court to replevy the Devices or collect damages. The Company believes it has meritorious defenses to the allegations and the Company intends to vigorously defend against the litigation.

Summary – We may be a party to other legal actions and proceedings from time to time. We are unable to estimate legal expenses or losses we may incur, if any, or possible damages we may recover, and we have not recorded any potential judgment losses or proceeds in our financial statements to date. We record expenses in connection with these suits as incurred.

An unfavorable resolution of any or all matters, and/or our incurrence of significant legal fees and other costs to defend or prosecute any of these actions and proceedings may, depending on the amount and timing, have a material adverse effect on our consolidated financial position, results of operations or cash flows in a particular period.

PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

CTI's Distribution Rights, Marineo and Delta

On April 8, 2014, Mr. Giuseppe Marineo, an inventor of the Calmare® pain therapy device, and Delta Research and Development ("Delta"), Mr. Marineo's research company, and Delta International Services and Logistics ("DIS&L"), Delta's commercial arm in which Mr. Marineo is the sole beneficiary of all proceeds as its founder and sole owner (collectively the "Group"), issued a press release (the "Group's Press Release") regarding CTI stating that the Company did not have authority to sell, distribute and manufacture the Calmare Device as an exclusive agent of the Group. CTI issued a corporate response in a press release dated April 11, 2014 stating that the Group's Press Release was inaccurate and has since been purged by the overseeing body of wire services.

This issue between the Company and the Group is over the validity of a 2012 Amendment to a Sales and Representation Agreement (the "Amendment") which, if valid and enforceable, may have compromised its rights to sell, distribute and manufacture the Calmare Device as an exclusive agent of the Group in the global marketplace, especially in the European, Middle Eastern and North African ("EMENA") territory which was responsible for approximately 70% of gross Calmare Device sales in 2011. However, the Company believes that the Amendment is neither valid nor enforceable as it was never duly signed or authorized and subsequently deemed null and void as disclosed on April 16, 2014 in the Form 10-K filing. Therefore, the parties' rights are determined by an earlier agreement whereby the Company possesses the authority to sell, distribute and manufacture the Calmare Device as a world-wide exclusive agent of the Group.

On April 16, 2014, counsel for the Group ("Group Counsel") sent a cease and desist letter ("Cease and Desist Letter") to the Company, requesting a confirmation that the Company would no longer hold itself out as an agent of the Group permitted to sell, distribute and manufacture the Calmare Device world-wide including the EMENA territory.

The Company responded on April 25, 2014 to the Cease and Desist Letter, disputing Group Counsel's interpretation of the events surrounding the execution of the Amendment. At this time, the Company continues to work to find a reasonable and amicable resolution to the situation.

Unsigned Agreements

The Company uses two unrelated firms to provide marketing and investor relations services, CME Acuity (“CMEA”) and Legend Capital Management (“LCM”), respectively. The LCM and CMEA agreements were not signed due to an inability to come to final terms due to certain nuances in either agreement that included but were not limited to assignment of human capital and allowable performance based bonus(es). However, from the start date until June 30, 2015, the respective firms were compensated for services rendered on a “pay-as-we go” basis (the “Arrangement”). The aforementioned Arrangement is expected to continue for the next few consecutive quarters until such time as their agreements can be consummated.

14. RELATED PARTY TRANSACTIONS

Our board of directors determined that when a director’s services are outside the normal duties of a director, we compensate the director at the rate of \$1,000 per day, plus expenses, which is the same amount we pay a director for attending a one-day Board meeting. We classify these amounts as consulting expenses, included in personnel and consulting expenses.

At June 30, 2015, \$2,598,980 of the outstanding Notes payable were Notes payable to related parties; \$2,498,980 to the chairman of our Board and \$100,000 to another director.

15. SUBSEQUENT EVENTS

From July 1, 2015 to November 30, 2015 the Company obtained additional funding, including \$600,000 of hybrid debt funding. From July 1, 2015 to November 30, 2015, the Company did a private offering of convertible notes and warrants, under which it issued \$706,000 of convertible promissory notes for consideration of \$600,000, the difference between the proceeds from the notes and principal amount consists of \$106,000 of original issue discount. The notes are convertible at a conversion price of \$0.25 per share. The note holder was also issued market-related warrants for 1,412,000 in shares of common stock. The warrants have an exercise price of \$0.60 and a 1-year term.

On September 15, 2015, the Company announced the appointment of Stephen J. D’Amato, M.D. as Chief Medical Officer of the Company. During 2010, CALMARx Pain Relief, LLC, purchased 10 Calmare devices from the Company for an aggregate purchase price of \$550,000. Additionally, during 2015 and 2014, CALMARx purchased certain supplies from the Company. Dr. D’Amato is one of the owners and managers of CALMARx Pain Relief, LLC.

On October 15, 2015, the Company entered into a consulting agreement with VADM Robert T. Conway, Jr., U.S. Navy, (Ret) (the “Admiral”), a member of the Company’s Board of Directors. The agreement is for one year and includes compensation of a monthly retainer fee of \$7,500 and a five year warrant to purchase 167,000 shares of common stock of the Company, fully vested on the date of issuance, at a strike price of \$.60 per share with an aggregate estimate fair value of \$33,734. As a result of this agreement, the Board of Directors has determined that the Admiral is no longer an

independent director of the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Statements about our future expectations are “forward-looking statements” within the meaning of applicable Federal Securities Laws, and are not guarantees of future performance. When used in herein, the words “may,” “will,” “should,” “anticipate,” “believe,” “intend,” “plan,” “expect,” “estimate,” “approximate,” and similar expressions are intended to identify forward-looking statements. These statements involve risks and uncertainties inherent in our business, including those set forth in Item 1A under the caption “Risk Factors,” in our most recent Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission (“SEC”) on June 24, 2015, and other filings with the SEC, and are subject to change at any time. Our actual results could differ materially from these forward-looking statements. We undertake no obligation to update publicly any forward-looking statement.

Overview

Calmare Therapeutics Incorporated (“CTI”) was incorporated in Delaware in 1971, succeeding an Illinois corporation incorporated in 1968. CTI and its majority-owned subsidiary (collectively, “we,” “our,” or “us”), is a biotechnology company developing and commercializing innovative products and technologies. CTI is the licensed distributor of the non-invasive, Calmare pain therapy medical device, which was designed and developed to treat neuropathic and cancer-derived pain.

Effective August 20, 2014, CTI changed its name from Competitive Technologies, Inc. to Calmare Therapeutics Incorporated.

Since 2011, the Company has controlled the sales process for the Calmare Device. We are the primary obligor, responsible for delivering devices as well as training our customers in the proper use of the device. We deal directly with customers, setting pricing and providing training; contribute to the development, new specifications and changes thereto, and to select and contract with manufacturing partners; and retain significant credit risk for amounts billed to customers. Therefore, all product sales are recorded following a gross revenue methodology. We record in product sales, the total funds earned from customers and record the costs of the device as cost of product sales, with gross profit from product sales being the result.

Sales of our Calmare device continue to be the major source of revenue for the Company. The Company's original 2007 agreement with Giuseppe Marineo (the “Scrambler Therapy Agreement”), an inventor of *Scrambler Therapy*

technology (“ST”), and Delta Research and Development (“Delta”), authorized CTI to manufacture and sell worldwide the device developed from the patented ST. The original agreement was amended in 2011 to provide the Company with exclusive rights to the ST through March 31, 2016. In July 2012, the Company attempted to negotiate a five-year extension to the agreement with Marineo and Delta (the “2012 Amendment”). However, the Company believes that the 2012 Amendment is neither valid nor enforceable as it was never duly signed or authorized and subsequently deemed null and void. The *Scrambler Therapy* technology is patented in Italy and the U.S. Additional applications for patents have been filed internationally and are pending approval. The Calmare® device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance.

CTI’s Distribution Rights, Marineo and Delta

On April 8, 2014, Mr. Giuseppe Marineo, an inventor of the Calmare Device, and Delta Research and Development (“Delta”), Mr. Marineo’s research company, and Delta International Services and Logistics (“DIS&L”), Delta’s commercial arm in which Mr. Marineo is the sole beneficiary of all proceeds as its founder and sole owner (collectively the “Group”), issued a press release (the “Group’s Press Release”) regarding CTI, stating that the Company did not have authority to sell, distribute and manufacture the Calmare Device as an exclusive agent of the Group. CTI issued a corporate response in a press release dated April 11, 2014 stating that the Group’s Press Release was inaccurate and has since been purged by the overseeing body of wire services.

This issue between the Company and the Group is over the validity of a 2012 Amendment to a Sales and Representation Agreement (the “Amendment”) which, if valid and enforceable, may have compromised its rights to sell, distribute and manufacture the Calmare Device as an exclusive agent of the Group in the global marketplace, especially in the European, Middle Eastern and North African (“EMENA”) territory which was responsible for approximately 70% of gross Calmare Device sales in 2011. However, the Company believes that the Amendment is neither valid nor enforceable as it was never duly signed or authorized and subsequently deemed null and void. Therefore, the parties’ rights are determined by an earlier agreement whereby the Company still possesses the authority to sell, distribute and manufacture Calmare Devices as a world-wide exclusive agent of the Group.

On April 16, 2014, counsel for the Group (“Group Counsel”) sent a cease and desist letter (“Cease and Desist Letter”) to the Company, requesting a confirmation that the Company would no longer hold itself out as an agent of the Group permitted to sell, distribute and manufacture Calmare Devices world-wide including the EMENA territory.

The Company responded on April 25, 2014 to the Cease and Desist Letter, disputing Group Counsel’s interpretation of the events surrounding the execution of the Amendment. At this time, the Company continues to work to find a reasonable and amicable resolution to the situation.

Presentation

All amounts in this Item 2 are rounded to the nearest thousand dollars.

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our financial condition and results of operations. This discussion and analysis should be read in conjunction with our Consolidated Financial Statements and Notes thereto.

Results of Operations – Three months ended June 30, 2015 vs. three months ended June 30, 2014

Summary of Results

Our net loss, for the quarter ended June 30, 2015, decreased to \$779,000 or \$0.03 per basic and diluted share as compared with a net loss of \$791,000 or \$0.03 per basic and diluted share for the comparable quarter of 2014. This net loss decrease is primarily attributable to a \$57,000 decrease in personnel and consulting expenses and a \$23,000 decrease in selling expenses, partially offset by a \$64,000 decrease in gross profit from product sales related to an \$116,000 decrease in products sales.

Revenue and Gross Profit from Sales

Revenue from the sale and shipment of Calmare® pain therapy medical devices (the “Devices”), in the three months ended June 30, 2015, decreased \$116,000 to \$200,000 as compared with \$316,000 for the comparable quarter of 2014.

Cost of product sales, in the three months ended June 30, 2015, decreased \$52,000 to \$46,000 as compared with \$98,000 for the comparable quarter of 2014. This decrease in cost of product sold is attributable to the decrease in sales as well as an increase in gross margin.

Device sales, in the three months ended June 30, 2015, decreased with the sale of two (2) Devices as compared with four (4) Device sales for the comparable quarter of 2014. Device sales for the three months ended June 30, 2015 were comprised of two (2) U.S. private sector sales. Device sales for the three months ended June 30, 2014 were comprised of three (3) U.S. private sector and one (1) U.S. military sales.

Due to the relatively long sales cycle for a Device, Device sales and related revenues and expenses can and will vary significantly from quarter to quarter.

Other Revenue

Retained royalties, in the three months ended June 30, 2015 of \$2,000, were substantially unchanged compared to \$2,000 in the three months ended June 30, 2014.

Other income, for the three months ended June 30, 2015, was \$17,000 as compared with \$14,000 in the three months ended June 30, 2014. Other income includes:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014
Training payments and the sale of supplies i.e., electrodes and cables for use with our Calmare Devices	\$ 11,000	\$ 3,000
Rental income from customers who were renting Calmare Devices from CTI	\$ 6,000	\$ 11,000

Expenses

Total expenses decreased \$73,000 or 7% to \$952,000 in the three months ended June 30, 2015 as compared with \$1,025,000 in the three months ended June 30, 2014.

Total operating expenses decreased \$70,000 or 9% to \$737,000 in the three months ended June 30, 2015 as compared with \$807,000 in the three months ended June 30, 2014.

Selling expenses decreased 35% or \$23,000 to \$43,000 in the three months ended June 30, 2015 as compared with \$66,000 in the three months ended June 30, 2014 and reflects decreased commissions as a result of decreased Devices sales.

Personnel and consulting expenses, in the three months ended June 30, 2015, decreased 13% or \$57,000 to \$367,000 as compared with \$424,000 in the three months ended June 30, 2014. This decrease is primarily attributable to a decrease in consulting costs related to sales and corporate activities.

General and administrative expenses, in the three months ended June 30, 2015, increased 3% or \$10,000 to \$327,000 as compared with \$317,000 in the three months ended June 30, 2014. The increase primarily relates an increase in litigation costs, partially offset by a decrease in corporate, sales and marketing travel costs.

Interest expense, in the three months ended June 30, 2015, increased \$92,000 or 81% to \$205,000 as compared with \$113,000 in the three months ended June 30, 2014 primarily as a result of the 1% additional monthly interest for the 90 day Convertible Notes (see Note 11 of the Notes to Condensed Consolidated Interim Financial Statements).

Unrealized loss on derivative instruments, in the three months ended June 30, 2015, was \$11,000, as compared with a \$25,000 loss in the three months ended June 30, 2014. This reflects the impact of the movement in CTI's share price on the Class C Preferred Stock at the end of each period.

Results of Operations – Six months ended June 30, 2015 vs. six months ended June 30, 2014

Summary of Results

Our net loss, for the six months ended June 30, 2015, increased to \$1,783,000 or \$0.03 per basic and diluted share as compared with a net loss of \$1,517,000 or \$0.03 per basic and diluted share for the comparable six months of 2014. This net loss increase is primarily attributable to \$209,000 decrease in gross profit from product sales related to a \$329,000 decrease in products sales, partially offset by a \$94,000 decrease in selling expenses.

Revenue and Gross Profit from Sales

Revenue from the sale and shipment of Calmare® pain therapy medical devices (the “Devices”), in the six months ended June 30, 2015, decreased \$329,000 to \$208,000 as compared with \$537,000 for the comparable six months of 2014.

Cost of product sales, in the six months ended June 30, 2015, decreased \$120,000 to \$48,000 as compared with \$168,000 for the comparable six months of 2014. This decrease in cost of product sold is attributable to the decrease in sales as well as an increase in gross margin.

Device sales, in the six months ended June 30, 2015, decreased with the sale of two (2) Devices as compared with seven (7) Device sales for the comparable six months of 2014. Device sales for the six months ended June 30, 2015 were comprised of two (2) U.S. private sector sales. Device sales for the six months ended June 30, 2014 were comprised of six (6) U.S. private sector and one (1) U.S. military sales.

Due to the relatively long sales cycle for a Device, Device sales and related revenues and expenses can and will vary significantly from quarter to quarter.

Other Revenue

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Retained royalties, in the six months ended June 30, 2015 of \$5,000, were substantially unchanged compared to \$5,000 in the six months ended June 30, 2014.

Other income, for the six months ended June 30, 2015, was \$26,000 as compared with \$17,000 in the six months ended June 30, 2014. Other income includes:

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Training payments and the sale of supplies i.e., electrodes and cables for use with our Calmare Devices	\$ 14,000	\$ 4,000
Rental income from customers who were renting Calmare Devices from CTI	\$ 12,000	\$ 13,000

Expenses

Total expenses increased \$65,000 or 3% to \$1,973,000 in the six months ended June 30, 2015 as compared with \$1,908,000 in the six months ended June 30, 2014.

Total operating expenses increased \$101,000 or 7% to \$1,569,000 in the six months ended June 30, 2015 as compared with \$1,468,000 in the six months ended June 30, 2014.

Selling expenses decreased 68% or \$94,000 to \$44,000 in the six months ended June 30, 2015 as compared with \$138,000 in the six months ended June 30, 2014 and reflects decreased commissions as a result of decreased Devices sales.

Personnel and consulting expenses, in the six months ended June 30, 2015, increased 7% or \$55,000 to \$874,000 as compared with \$819,000 in the six months ended June 30, 2014. This increase is primarily related to an increase in consulting costs of \$154,000, principally in the form of equity compensation (stock and warrants) in the areas of sales and investor advisory services, partially offset by an \$97,000 decrease in personnel costs, principally related to incentive compensation.

General and administrative expenses, in the six months ended June 30, 2015, increased 27% or \$139,000 to \$650,000 as compared with \$511,000 in the six months ended June 30, 2014. The increase primarily relates an increase in litigation costs, partially offset by a decrease in corporate, sales and marketing travel costs.

Interest expense, in the six months ended June 30, 2015, increased \$173,000 or 79% to \$391,000 as compared with \$218,000 in the six months ended June 30, 2014 primarily as a result of the 1% additional monthly interest for the 90 day Convertible Notes (see Note 11 of the Notes to Condensed Consolidated Interim Financial Statements).

Unrealized loss on derivative instruments, in the six months ended June 30, 2015, was \$11,000, as compared with a \$12,000 loss in the six months ended June 30, 2014. This reflects the impact of the movement in CTI's share price on the Class C Preferred Stock at the end of each period.

Financial Condition and Liquidity

Our liquidity requirements arise principally from our working capital needs, including funds needed to sell our current technologies and obtain new technologies or products, and protect and enforce our intellectual property rights, if necessary. We fund our liquidity requirements with a combination of cash on hand, debt and equity financing, sales of common stock and cash flows from operations, if any. At June 30, 2015, the Company had outstanding debt in the form of promissory notes with a total principal amount of \$3,477,000 and a carrying value of \$3,349,000.

Our future cash requirements depend on many factors, including results of our operations and marketing efforts, results and costs of our legal proceedings, and our equity financing. To achieve and sustain profitability, we are implementing a corporate reengineering effort, which commenced on September 26, 2013 under the direction of CTI's new president & CEO, Mr. Conrad Mir. This plan design will change the inherent design of the current distributor network and focus on opportunities within the US Departments of Defense (the "DOD") and Veterans Affairs ("VA"), and set out to upgrade CTI's current U.S. Food and Drug Administration ("FDA") clearance designation for the Calmare Device to approval. Although we cannot be certain that we will be successful in these efforts, we believe the combination of our cash on hand and revenue from executing our strategic plan will be sufficient to meet our obligations of current and anticipated operating cash requirements.

In fiscal 2010, the Company incorporated revenue from the sale of inventory into its revenue stream. That source of revenue is expected to continue as sales of its Calmare Device continue to expand and other products are added to the Company's portfolio of technologies.

At June 30, 2015, cash was \$75,000, as compared with \$6,000 at December 31, 2014. Net cash used in operating activities was \$(510,000) for the six months ended June 30, 2015 as compared to \$(542,000) for the six months ended June 30, 2014, primarily reflecting an increase in net loss partially offset by an increase in accounts payable, accrued expenses and other liabilities and non-cash equity expenses. There was minimal investing activity year to date in both 2015 and 2014. Net cash provided by financing activities was \$580,000 for the six months ended June 30, 2015 as compared to \$548,000 for the six months ended June 30, 2014, primarily as a result of the Company's debt and equity financing activities in both periods.

We currently have the benefit of using a portion of our accumulated net operating losses ("NOLs") to eliminate any future regular federal and state income tax liabilities. We will continue to receive this benefit until we have utilized all of our NOLs, federal and state. However, we cannot determine when and if we will be profitable enough to utilize the benefit of the remaining NOLs before they expire.

Going Concern

The Company has incurred operating losses since fiscal 2006 and has a working capital and shareholders' deficiency at June 30, 2015. During the three and six months ended June 30, 2015 and 2014, we had a significant concentration of revenues from our Calmare Device technology. We continue to seek revenue from new and existing technologies or products to mitigate the concentration of revenues, and replace revenues from expiring licenses on other technologies.

Although we have taken steps to significantly reduce operating expenses going forward, even at these reduced spending levels, should the anticipated increase in revenue from sales of Calmare® medical devices and other technologies not occur, the Company may not have sufficient cash flow to fund operations through 2015 and into 2016. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company's continuation as a going concern is dependent upon its developing recurring revenue streams sufficient to cover operating costs. The Company does not have any significant individual cash or capital requirements in the budget going forward. If necessary, CTI will meet anticipated operating cash requirements by further reducing costs, issuing debt and/or equity, and/or attempt to pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining legacy portfolio of technologies. There can be no assurance that the Company will be successful in such efforts. Failure to develop a recurring revenue stream sufficient to cover operating expenses could negatively affect the Company's financial position.

Debt Financing

Details of notes payable as of June 30, 2015 are as follows:

	Principal Amount	Carrying Value	Cash Interest Rate	Common Stock Conversion Price	Maturity Date
90 day Convertible Notes (Chairman of the Board)	\$2,498,980	\$2,498,980	6	% \$ 1.05	Various 2014
24 month Convertible Notes (\$100,000 to Board member)	225,000	225,000	6	% 1.05	March 2014 – June 2014
Series A3 15% OID Convertible Notes and Warrants	11,765 (1)	14,353 (1)	None	0.25	January 2015
Series B OID Convertible Notes and Warrants	80,000	62,289	None	0.23	March 2017
1 Year 15% OID Convertible Notes and Warrants	661,177	548,525	None	0.20	Aug. 2015 – Feb. 2016
Notes Payable, gross	\$3,476,922	3,349,147			
Less LPA amount		(485,980)			
Notes Payable, net		\$2,863,167			

(1) Includes \$2,588 of accrued loss on conversion of OID note.

90 day Convertible Notes

The Company has issued 90-day notes payable to borrow funds from a director, now the chairman of our Board, as follows:

2013	\$1,188,980
2012	1,210,000
2011	100,000
Total	\$2,498,980

These notes have been extended several times and all bear 6.00% simple interest. A conversion feature was added to the Notes when they were extended, which allows for conversion of the eligible principal amounts to common stock at

any time after the six month anniversary of the effective date – the date the funds are received – at a rate of \$1.05 per share. Additional terms have been added to all Notes to include additional interest 1% simple interest per month on all amounts outstanding for all Notes if extended beyond their original maturity dates and to provide the lender with a security interest in unencumbered inventory and intangible assets of the Company other than proceeds relating to the Calmare Device and accounts receivable.

Due to the Board's February 10, 2014 decision authorizing management to nullify certain actions taken by prior management, the additional terms noted above were not approved and therefore, the additional interest for the extension of the Notes was not recorded. During 2014, management has been in negotiations to modify the terms of the Notes. However, until those negotiations are resolved, the Company has agreed to honor the additional terms and as such, the Company recorded additional interest of approximately \$188,000 during the six months ended June 30, 2015, and has recorded additional interest in total of \$807,000.

A total of \$485,980 of the aforementioned notes issued between December 1, 2012 and March 31, 2013 fall under the liabilities purchase agreement with ASC Recap, and are expected to be repaid using the process as described in Note 10. Because there can be no assurance that the Company will be successful in completing this process, the Company retains ultimate responsibility for this debt, until fully paid down. As a result, the Company continues to accrue interest on these notes and they remain convertible as described above.

24 month Convertible Notes

In March 2012, the Company issued a 24-month convertible promissory note to borrow \$100,000. Additional 24-month convertible promissory notes were issued in April 2012 (\$25,000) and in June 2012 (\$100,000). All of the notes bear 6.00% simple interest. Conversion of the eligible principal amounts to common stock is allowed at any time after at a rate of \$1.05 per share.

As of November 30, 2015 the Company has not repaid the principal due on the March 2012 \$100,000 note, the April 2012 \$25,000 note or the June 2012 \$100,000 note and is in default under the terms of the notes. As of June 30, 2015, there is also unpaid interest of \$25,000 related to these notes.

Series A 15% Original Issue Discount Convertible Notes and Warrants

During the quarter ended March 31, 2014, the Company did a private offering of a third tranche of convertible notes and warrants, under which it issued \$64,706 of convertible promissory notes for consideration of \$55,000, the difference between the proceeds from the notes and principal amount consists of \$9,706 of original issue discount. The notes are convertible at an initial conversion price of \$0.25 per share any time after issuance thereby having an embedded beneficial conversion feature.

The note holders were also issued market-related warrants for 129,412 in shares of common stock. The warrants have exercise price of \$0.60 and a term of 2 years. The beneficial conversion feature, if any, and the warrants were recorded to additional paid-in-capital. The total debt discount is amortized over the life of the notes to interest expense.

During the quarter ended June 30, 2014, certain holders of OID convertible notes and warrants delivered to the Company a notice of conversion related to the OID convertible notes. Due to the timing of receipt of the notices by the Company, certain Note holders ("Noteholders") received their shares during the quarter ended June 30, 2014, while other Noteholders received or are due to receive their shares after June 30, 2014. Additionally, the Company offered certain Noteholders an inducement to convert their notes to shares. The inducement, when offered, provided Noteholders a conversion price of \$0.20. All other original terms, including the warrant terms, remained the same. Upon notice of conversion and irrespective of whether the shares were delivered in the quarter ended June 30, 2014 or subsequent to June 30, 2014 to the Company: (i) accelerated and recognized as interest expense in the current period any remaining discount, and (ii) recognized a loss for the fair value of the additional shares offered as the conversion inducement.

During the quarter ended March 31, 2015, certain holders of OID convertible notes and warrants delivered to the Company a notice of conversion related to the OID convertible notes. Additionally, the Company offered certain Noteholders an inducement to convert their notes to shares. The inducement, when offered, provided Noteholders a conversion price of \$0.20. All other original terms, including the warrant terms, remained the same. Upon notice of conversion Company: (i) accelerated and recognized as interest expense in the current period any remaining discount and (ii) recognized a loss for the fair value of the additional shares offered as the conversion inducement. As of June 30, 2015, the Company had not issued the shares due related to the conversion notice.

Series B Original Issue Discount Convertible Notes and Warrants

During the quarter ended March 31, 2014, the Company did a private offering of convertible notes and warrants, under which it issued \$80,000 of convertible promissory notes for consideration of \$65,000, the difference between the proceeds from the notes and principal amount consists of \$15,000 of original issue discount. The notes are convertible at an initial conversion price of \$0.35 per share any time after issuance thereby having an embedded beneficial conversion feature. The note holders were also issued market-related warrants for 185,714 in shares of common stock. The warrants have an exercise price of \$0.45 and a 4-year term. The beneficial conversion feature and the warrants were recorded to additional paid-in-capital. The Company allocated the proceeds received to the notes, the beneficial conversion feature and the warrants on a relative fair value basis at the time of issuance. The total debt discount is amortized over the life of the notes to interest expense.

The Series B OID notes include an anti-dilution provision that if the Company issues more than 20 million shares of its common stock, subject to certain exceptions, the conversion price of the notes and the conversion price of the warrants would be subject to an automatic pre-determined price adjustment. During the quarter ended December 31, 2014 the Series B OID noteholder and the Company agreed that this anti-dilution provision had been triggered and the OID note share conversion price was adjusted down to \$0.23 per share, which increased the number of shares available upon conversion to 347,826. The anti-dilution provision in the Warrant changed the share purchase price downward to \$0.33 per share but did not change the number of shares available under the Warrant.

1 Year 15% OID Convertible Notes and Warrants

During the quarter ended March 31, 2015, the Company did an additional private offering of convertible notes and warrants, under which it issued \$302,353 of convertible promissory notes for consideration of \$257,000, the difference between the proceeds from the notes and principal amount consists of \$45,353 of original issue discount. The notes are convertible at an initial conversion price of \$0.20 per share any time after issuance thereby having an embedded beneficial conversion feature. The note holders were also issued market-related warrants for 755,882 in shares of common stock. The warrants have an exercise price of \$0.60 and a 1-year term. The beneficial conversion feature and the warrants were recorded to additional paid-in-capital. The Company allocated the proceeds received to the notes, the beneficial conversion feature and the warrants on a relative fair value basis at the time of issuance. The total debt discount is amortized over the life of the notes to interest expense.

During the quarter ended June 30, 2015, a holder of OID convertible notes and warrants delivered to the Company a notice of conversion related to the OID convertible notes with a principal amount of \$5,882. As of June 30, 2015, the Company had not issued the shares due related to the conversion notice.

Capital requirements

We continue to seek revenue from new technology licenses to mitigate the concentration of revenue, and replace revenue from expiring licenses. We have created a new business model for appropriate technologies that allows us to move beyond our usual royalty arrangement and share in the profits of distribution.

For the remainder of 2015, we expect our capital expenditures to be less than \$100,000.

Contractual Obligations and Contingencies

Contingencies

Our directors, officers, employees and agents may claim indemnification in certain circumstances.

Many of our license and service agreements provide that upfront license fees, license fees and/or royalties we receive are applied against amounts that our clients or we have incurred for patent application, prosecution, issuance and maintenance costs. If we incur such costs, we expense them as incurred, and reduce our expense if we are reimbursed

from future fees and/or royalties we receive. If the reimbursement belongs to our client, we record no revenue or expense.

As of June 30, 2015, CTI and its majority-owned subsidiary, VVI, have remaining obligations, contingent upon receipt of certain revenue, to repay up to \$165,788 and \$198,334, respectively, in consideration of grant funding received in 1994 and 1995. CTI also is obligated to pay at the rate of 7.5% of its revenues, if any, from transferring rights to certain inventions supported by the grant funds. VVI is obligated to pay at rates of 1.5% of its net sales of supported products or 15% of its revenues from licensing supported products, if any.

Critical Accounting Estimates

There have been no significant changes in our accounting estimates described under the caption “Critical Accounting Estimates” included in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual report on Form 10-K for the year ended December 31, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Management evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2014. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized, and reported, within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, management concluded that our disclosure controls and procedures were effective as of June 30, 2015.

(b) Change in Internal Controls

During the period ending June 30, 2015, there were no changes in our internal control over financial reporting during that period that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is involved in litigation matters relating to claims arising from the ordinary course of business. While the results of such claims and legal actions cannot be predicted with certainty, with the exception of items disclosed in previous filings, the Company's management does not believe that there are claims or actions, pending or threatened against the Company, the ultimate disposition of which would have a material adverse effect on our business, results of operations, financial condition or cash flows.

Item 1A. Risk Factors

We are a smaller reporting company and are not required to provide the information under this item.

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

During the quarter ended June 30, 2015, the Company did an additional private offering of its common stock and warrants, for consideration of \$290,000. 1,450,000 shares of common stock were issued at a per share price of \$0.20. The common stock holders were also issued warrants to purchase 725,000 shares of common stock. The warrants have an exercise price of \$0.60 and a 3-year term. The warrants were recorded to additional paid-in-capital.

The Company issued the shares in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act and Rule 506(b) of Regulation D. The Company's reliance on Section 4(2) of the Securities Act was based upon the following factors: (a) the issuance of the securities was an isolated private transaction by us which did not involve a public offering; (b) there were only a limited number of offerees; (c) there were no subsequent or contemporaneous public offerings of the securities by the Company; (d) the securities were not broken down into smaller denominations; and (e) the negotiations for the sale of the stock took place directly between the offeree and the Company.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No	Description	Filing Method
3.1	Unofficial restated certificate of incorporation of the registrant as amended to date filed.(1)	Incorporated by reference
3.2	Bylaws of the registrant as amended effective October 15, 2015 (2)	Incorporated by reference
10.1	VADM Conway Consulting Agreement	Filed herewith
31.1	Certification by the Chief Executive Officer of Calmare Therapeutics Incorporated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).	Filed herewith
31.2	Certification by the Chief Financial Officer of Calmare Therapeutics Incorporated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).	Filed herewith
32.1	Certification by the Chief Executive Officer of Calmare Therapeutics Incorporated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).	Furnished herewith
32.2	Certification by the Chief Financial Officer of Calmare Therapeutics Incorporated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).	Furnished herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Schema	Filed herewith
101.CAL	XBRL Taxonomy Calculation Linkbase	Filed herewith
101.DEF	XBRL Taxonomy Definition Linkbase	Filed herewith
101.LAB	XBRL Taxonomy Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Presentation Linkbase	Filed herewith

- (1) Filed as Exhibit 4.1 to the registrant's registration statement on Form S-8 with the SEC on April 1, 1998.
- (2) Filed as Exhibit 3.1 to the registrant's Form 8-K filed with the SEC on October 23, 2015

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.

CALMARE THERAPEUTICS INCORPORATED
(the registrant)

By/s/ Conrad Mir

Conrad Mir

President and Chief Executive Officer

December 2, 2015 Authorized Signer (Duly Authorized Officer and Principal Executive Officer)