

CALMARE THERAPEUTICS Inc  
Form 10-Q  
December 29, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-08696

**CALMARE THERAPEUTICS INCORPORATED**

(Exact name of registrant as specified in its charter)

[www.calmaretherapeutics.com](http://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, 06824  
Connecticut  
(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 x 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 x No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer, large accelerated filer and smaller reporting company" as defined in Rule 12b-2 of the Exchange Act.

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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 December 29, 2016 was 28,787,831 shares.

**CALMARE THERAPEUTICS INCORPORATED**

**INDEX TO QUARTERLY REPORT ON FORM 10-Q**

|  | <b>Page<br/>No.</b> |
|--|---------------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  |                     |
| Item 1. <u>Condensed Consolidated Interim Financial Statements (unaudited)</u>   | 3                   |
| <u>Condensed Consolidated Balance Sheets at September 30, 2016 (unaudited) and December 31, 2015</u>   | 3                   |
| <u>Condensed Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2016 and September 30, 2015</u> | 4-5                 |
| <u>Condensed Consolidated Statement of Changes in Shareholders' Deficit for the nine months ended September 30, 2016 (unaudited)</u>             | 6                   |
| <u>Condensed Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2016 and September 30, 2015</u>           | 7                   |
| <u>Notes to Condensed Consolidated Interim Financial Statements (unaudited)</u>  | 9-26                |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 26-35               |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | 35                  |
| Item 4. <u>Controls and Procedures</u>   | 35                  |
| <b><u>PART II. OTHER INFORMATION</u></b>   |                     |
| Item 1. <u>Legal Proceedings</u>   | 36                  |
| Item 1A. <u>Risk factors</u>   | 36                  |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 36                  |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 36                  |
| Item 4. <u>Mine Safety Disclosures</u>   | 36                  |
| Item 5. <u>Other Information</u>   | 37                  |

|                         |    |
|-------------------------|----|
| Item 6. <u>Exhibits</u> | 37 |
| <u>Signatures</u>       | 38 |

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

## Condensed Consolidated Balance Sheets

|   | September<br>30, 2016<br>(Unaudited) | December<br>31, 2015 |
|---|--------------------------------------|----------------------|
| Assets  |                                      |                      |
| Current Assets:   |                                      |                      |
| Cash  | \$6,872                              | \$49,801             |
| Receivables, net of allowance of \$317,659 at both September 30, 2016 and December 31, 2015 | 2,751                                | 33,081               |
| Inventory   | 3,948,220                            | 4,028,220            |
| Prepaid expenses and other current assets   | 5,510                                | 58,034               |
| Total current assets  | 3,963,353                            | 4,169,136            |
| Property and equipment, net   | 11,331                               | 23,726               |
| Security deposits   | 15,000                               | 15,000               |
| <b>TOTAL ASSETS</b>   | <b>\$3,989,684</b>                   | <b>\$4,207,862</b>   |
| Liabilities and Shareholders' Deficit   |                                      |                      |
| Current Liabilities:  |                                      |                      |
| Accounts payable  | \$1,690,860                          | \$1,895,382          |
| 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  | 2,889,400                            | 2,248,024            |
| Notes payable   | 5,422,458                            | 3,785,063            |
| Deferred revenue  | 6,400                                | 6,400                |
| Series C convertible preferred stock derivative liability                                   | 83,591                               | 66,177               |
| Series C convertible preferred stock liability  | 375,000                              | 375,000              |
| Total current liabilities   | 16,645,409                           | 14,553,746           |
| Note payable – long-term  | -                                    | 67,919               |
| 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, 100,000,000 shares authorized, 28,787,831 shares issued and outstanding at September 30, 2016 and 28,515,888 shares issued and outstanding at December 31, 2015 | 287,877            | 285,158            |
| Capital in excess of par value   | 49,004,905         | 48,611,413         |
| Accumulated deficit  | (62,009,182)       | (59,371,049)       |
| Total shareholders' deficit  | (12,655,725)       | (10,413,803)       |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>   | <b>\$3,989,684</b> | <b>\$4,207,862</b> |

*See accompanying notes*

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

## Condensed Consolidated Statements of Operations

(Unaudited)

|  | Three months<br>ended<br>September<br>30, 2016 |  | Three months<br>ended<br>September<br>30, 2015 |
|--|--|--|--|
| Revenue  |  |  |  |
| Product sales  | \$ 465,000                                     |  | \$ 197,204                                     |
| Cost of product sales                                  | 125,719  |  | 59,830   |
| Gross profit from<br>product sales                     | 339,281  |  | 137,374  |
| Other Revenue  |  |  |  |
| Retained royalties                                     | 4,647  |  | 2,389  |
| Other income   | 30,954   |  | 13,673   |
| Total other revenue                                    | 35,601   |  | 16,062   |
| Operating expenses                                     |  |  |  |
| Selling expenses                                       | 22,718   |  | 67,791   |
| Personnel and<br>consulting expenses                   | 444,082  |  | 455,087  |
| General and<br>administrative<br>expenses              | 167,996  |  | 362,208  |
| Total operating<br>expenses                            | 634,796  |  | 885,086  |
| Operating loss   | (259,914 )                                     |  | (731,650 )                                     |
| Other expense  |  |  |  |
| Interest expense                                       | 393,867  |  | 300,361  |
| Unrealized (gain)<br>loss on derivative<br>instruments | (5,388 )                                       |  | 30,791   |
| Total other expense                                    | 388,479  |  | 331,152  |
|  | (648,393 )                                     |  | (1,062,802 )                                   |



|   |    |            |   |                 |
|---|----|------------|---|-----------------|
| Loss before income taxes  |    |            |   |                 |
| Provision (benefit) for income taxes                                    |    | -          |   | -               |
| Net loss  | \$ | (648,393   | ) | \$ (1,062,802 ) |
| Basic and diluted loss per share  | \$ | (0.02      | ) | \$ (0.04 )      |
| Basic and diluted weighted average number of common shares outstanding: |    | 28,787,831 |   | 28,370,953      |

*See accompanying notes*

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

## Condensed Consolidated Statements of Operations

(Unaudited)

|   | Nine months<br>ended<br>September<br>30, 2016 | Nine months<br>ended<br>September<br>30, 2015 |
|---|---|---|
| Revenue   |   |   |
| Product sales                                   | \$ 716,250                                    | \$ 405,154                                    |
| Cost of product sales                           | 199,704                                       | 108,070                                       |
| Gross profit from<br>product sales              | 516,546                                       | 297,084                                       |
| Other Revenue                                   |   |   |
| Retained royalties                              | 13,973  | 7,037   |
| Other income                                    | 55,175  | 39,206  |
| Total other revenue                             | 69,148  | 46,243  |
| Operating expenses                              |   |   |
| Selling expenses                                | 85,537  | 112,131                                       |
| Personnel and<br>consulting expenses            | 1,310,139                                     | 1,329,466                                     |
| General and<br>administrative<br>expenses       | 653,940                                       | 1,012,369                                     |
| Total operating<br>expenses                     | 2,049,616                                     | 2,453,966                                     |
| Operating loss                                  | (1,463,922 )                                  | (2,110,639 )                                  |
| Other expense                                   |   |   |
| Interest expense                                | 1,156,797                                     | 690,892                                       |
| Loss on conversion<br>of notes                  | -   | 2,588   |
| Unrealized loss on<br>derivative<br>instruments | 17,414  | 41,694  |
| Total other expense                             | 1,174,211                                     | 735,174                                       |

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|   |                 |                 |
|---|-----------------|-----------------|
| Loss before income taxes  | (2,638,133 )    | (2,845,813 )    |
| Provision (benefit) for income taxes                                    | -               | -               |
| Net loss  | \$ (2,638,133 ) | \$ (2,845,813 ) |
| Basic and diluted loss per share  | \$ (0.09 )      | \$ (0.10 )      |
| Basic and diluted weighted average number of common shares outstanding: | 28,689,254      | 27,673,151      |

*See accompanying notes*

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

## Condensed Consolidated Statement of Changes in Shareholders' Deficit

For the Nine Months Ended September 30, 2016

(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, 2016                                    | 2,427           | \$60,675 | 28,515,888   | \$285,158 | \$48,611,413 | \$(59,371,049) | \$(10,413,803) |
| Net loss   | -               | -        | -            | -         | -            | (2,638,133 )   | (2,638,133 )   |
| Common stock issued to directors                           | -               | -        | 10,000       | 100       | 1,800        | -              | 1,900          |
| Stock option compensation expense                          | -               | -        | -            | -         | 8,260        | -              | 8,260          |
| Stock grant to employee                                    | -               | -        | 261,943      | 2,619     | 47,150       | -              | 49,769         |
| Warrant and beneficial conversion feature on notes payable | -               | -        | -            | -         | 336,282      | -              | 336,282        |
| Balance September 30, 2016                                 | 2,427           | \$60,675 | 28,787,831   | \$287,877 | \$49,004,905 | \$(62,009,182) | \$(12,655,725) |

*See accompanying notes*

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

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

|   | Nine months<br>ended<br>September 30,<br>2016 | Nine months<br>ended<br>September 30,<br>2015 |
|---|---|---|
| Cash flows from operating activities:                                       |   |   |
| Net loss  | \$ (2,638,133 )                               | \$ (2,845,813 )                               |
| Adjustments to reconcile net loss to net cash used in operating activities: |   |   |
| Depreciation and amortization   | 12,395  | 12,267  |
| Stock option compensation expense   | 8,260   | 49,181  |
| Share-based compensation – common stock                                     | 1,900   | 2,125   |
| Common stock and warrants issued to consultants                             | -   | 182,600                                       |
| Debt discount amortization  | 705,758                                       | 265,358                                       |
| Unrealized loss on derivative instruments                                   | 17,414  | 41,694  |
| Loss on conversion of notes   | -   | 2,588   |
| Changes in assets and liabilities:  |   |   |
| Receivables   | 30,330  | (183 )  |
| Prepaid expenses and other current assets                                   | 52,524  | 191,249                                       |
| Inventory   | 80,000  | 40,000  |
| Accounts payable, accrued expenses and other liabilities                    | 486,623                                       | 936,494                                       |
| Deferred revenue  | -   | (13,286 )                                     |
| Net cash used in operating activities                                       | (1,242,929 )                                  | (1,135,726 )                                  |
| Cash flows from investing activities:                                       |   |   |
| Purchase of property and equipment  | -   | (4,700 )                                      |
| Net cash used in investing activities                                       | -   | (4,700 )                                      |
| Cash flows from financing activities:                                       |   |   |
| Proceeds from notes payable   | 1,200,000                                     | 857,000                                       |
| Repayment of note and warrant settlement                                    | -   | (42,500 )                                     |
| Proceeds from common stock and warrants                                     | -   | 365,000                                       |
| Net cash provided by financing activities                                   | 1,200,000                                     | 1,179,500                                     |
| Net increase (decrease) in cash   | (42,929 )                                     | 39,074  |

|                             |          |           |
|-----------------------------|----------|-----------|
| Cash at beginning of period | 49,801   | 5,745     |
| Cash at end of period       | \$ 6,872 | \$ 44.819 |

**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 amortized the \$80,000 over the service period and recorded \$20,000 and \$60,000 of expense in the quarter and nine months ended September 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 nine months ended September 30, 2015, the Company allocated \$316,623 of convertible note proceeds for the fair value of warrants and beneficial conversion feature to additional paid-in capital.

During the quarter ended September 30, 2015, the Company issued 29,410 shares of common stock upon conversion of notes (see Note 11).

During the nine months ended September 30, 2016, the Company allocated \$336,282 of convertible note proceeds for the fair value of warrants and beneficial conversion feature to additional paid-in capital.

*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.

Calmare Therapeutics Incorporated and its majority-owned (56.1%) subsidiary, Vector Vision, Inc., (collectively, the “Company,” “we,” “our,” or “us”), is a medical device company developing and commercializing innovative products and technologies for chronic neuropathic pain and wound care affliction patients. The Company’s flagship medical device, the Calmare® Pain Therapy Device (the “Calmare Device”), is the world’s only non-invasive and non-addictive modality that can successfully treat chronic, neuropathic pain.

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiary, Vector Vision, Inc. 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 nine months ended September 30, 2016 are not necessarily indicative of the results that can be expected for the full year ending December 31, 2016.

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, 2015 filed with the Securities and Exchange Commission (“SEC”) on April 14, 2016.



During the three and nine months ended September 30, 2016, 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 months ended September 30, 2016 and September 30, 2015, were 94% and 95%, respectively. The percentages of gross revenue attributed to sales and rentals of Calmare Devices, in the nine months ended September 30, 2016 and September 30, 2015, were 93% and 94%, respectively. Additionally, the percentage of gross revenue attributed to other Calmare Device related sales of equipment and training, in the three months ended September 30, 2016 and September 30, 2015, were 5% and 4%, respectively. The percentage of gross revenue attributed to other Calmare Device related sales of equipment and training, in the nine months ended September 30, 2016 and September 30, 2015, were 5% and 4%, respectively. 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 deficiency and shareholders' deficiency at September 30, 2016. 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 2016 and into 2017. 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, the Company 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.

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 September 30, 2016, the Company had outstanding debt in the form of promissory notes with a total principal amount of \$6,059,000 and a carrying value of \$5,908,000.

## 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<br>months<br>ended<br>September<br>30, 2016 | Three<br>months<br>ended<br>September<br>30, 2015 | Nine<br>months<br>ended<br>September<br>30, 2016 | Nine<br>months<br>ended<br>September<br>30, 2015 |
|--|---|---|--|--|
| Denominator for basic net loss per share, weighted average shares outstanding          | 28,787,831  | 28,370,953  | 28,689,254                                       | 27,673,151                                       |
| 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        | 28,787,831  | 28,370,953  | 28,689,254                                       | 27,673,151                                       |

Due to the net loss incurred for the three and nine months ended September 30, 2016, and September 30, 2015, 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:

September 30, 2016    September 30, 2015

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|  |            |            |
|--|------------|------------|
| Exercise of common stock options                   | 1,552,500  | 2,042,500  |
| Exercise of common stock warrants                  | 10,801,512 | 7,864,013  |
| Conversion of Series C convertible preferred stock | 2,902,477  | 1,857,194  |
| Conversion of convertible debt                     | 18,500,915 | 9,089,153  |
| Total  | 33,757,404 | 20,852,860 |

### 3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the 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 31, 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.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. The ASU is effective for interim and annual periods beginning after December 15, 2018, and requires a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify certain aspects of the accounting for share-based payments to employees. The guidance in this standard requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled rather than recording excess tax benefits or deficiencies in additional paid-in capital. The guidance in this standard also allows an employer to repurchase more of an employee’s shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The standard becomes effective for interim and annual periods beginning after December 15, 2016, and requires a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customer (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The amendments in ASU 2016-12 address narrow-scope improvements to the guidance on collectability, noncash consideration, and completed contracts at transition. Additionally, the amendments in this update provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. This guidance is effective for annual periods beginning after December 15, 2018, including interim reporting periods therein. The Company is currently evaluating the potential impact the adoption of this standard will have on its consolidated financial statements and related disclosures.

**4. RECEIVABLES**

Receivables consist of the following:

|  | September<br>30,<br>2016 | December<br>31,<br>2015 |
|--|--------------------------|-------------------------|
| Calmare device sales receivable, net of allowance of \$210,284 at September 30, 2016 and December 31, 2015 | \$ -                     | \$ 31,827               |
| Royalties, net of allowance of \$101,154 at September 30, 2016 and December 31, 2015                       | -                        | -                       |
| Other, net of allowance of \$6,221 at September 30, 2016 and December 31, 2015                             | 2,751                    | 1,254                   |
| Total  | \$ 2,751                 | \$ 33,081               |

**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”). The Company owns 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. The Company received 60 shares of privately held Xion Pharmaceutical Corporation common stock in June 2010. The Company currently owns 30% of the outstanding stock of Xion Pharmaceutical Corporation.

**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

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 \$84,000 and \$66,000 at September 30, 2016 and December 31, 2015, respectively, 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, liabilities under the claims purchase agreement, accounts payable, GEOMC, 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:

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| Prepaid insurance                         | \$ 4,549              | \$ 47,931            |
| Other                                     | 961                   | 10,103               |
| Prepaid expenses and other current assets | \$ 5,510              | \$ 58,034            |

## 8. PROPERTY AND EQUIPMENT

Property and equipment, net, consist of the following:

| September 30,<br>2016 | December 31,<br>2015 |
|-----------------------|----------------------|
|-----------------------|----------------------|



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|   |            |            |
|---|------------|------------|
| Property and equipment, gross             | \$ 220,051 | \$ 220,051 |
| Accumulated depreciation and amortization | (208,720 ) | (196,325 ) |
| Property and equipment, net               | \$ 11,331  | \$ 23,726  |

Depreciation and amortization expense was \$4,132 and \$12,395, respectively, during the three and nine months ended September 30, 2016, and \$3,904 and \$12,267, respectively, for the three and nine months ended September 30, 2015.

**9. ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consist of the following:

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| Royalties payable                           | \$ 588,685            | \$ 487,739           |
| Accrued compensation                        | 79,406                | 49,769               |
| Commissions payable                         | 21,525                | 15,900               |
| Accrued interest payable                    | 2,015,986             | 1,589,256            |
| Other                                       | 183,798               | 205,360              |
| Accrued expenses and other liabilities, net | \$ 2,889,400          | \$ 2,248,024         |

Excluded above is approximately \$217,000 of accrued expenses and other liabilities at September 30, 2016 and December 31, 2015, 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 the third quarter of 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 the Company’s 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 December 29, 2016, 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.

## 11. NOTES PAYABLE

Notes payable consist of the following:

| <b>Short term</b>                                      | September 30, 2016 | December 31, 2015 |
|--|--------------------|-------------------|
| 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           |
| Series A-3 OID Convertible Notes and Warrants          | 14,353             | 14,353            |
| Series B-2 OID Convertible Notes and Warrants          | 3,170,105          | 1,532,710         |
| Short term notes payable, gross                        | 5,908,438          | 4,271,043         |
| Less LPA amount  | (485,980           | ) (485,980        |
| Short term notes payable, net                          | \$ 5,422,458       | \$3,785,063       |

| <b>Long term</b>                              | <b>September 30,<br/>2016</b> | <b>December 31, 2015</b> |
|---|-------------------------------|--------------------------|
| Series B-1 OID Convertible Notes and Warrants | \$ -                          | \$67,919                 |

Details of notes payable as of September 30, 2016 are as follows:

| Short term   | 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                      | 3/2014 – 6/2014   |
| Series A-3 OID Convertible Notes and Warrants          | 11,765           | 14,353 (1)     | None               | \$0.25                        | 1 /2015           |
| Series B-2 OID Convertible Notes and Warrants          | 3,323,529        | 3,170,105      | None               | \$0.20 – 0.25                 | 11/2015 – 03/2017 |
| Short term notes payable, gross                        | \$6,059,274      | 5,908,438      |                    |                               |                   |
| Less LPA amount  |                  | (485,980 )     |                    |                               |                   |
| Short term notes payable, net                          |                  | \$5,422,458    |                    |                               |                   |

(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. As of September 30, 2016, there is unpaid interest of \$546,021 related to these notes. 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, 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 \$108,000 and \$99,000 during the three months ended September 30, 2016 and September 30, 2015, respectively, and has recorded approximately \$315,000 and \$287,000 during the nine months ended September 30, 2016 and September 30, 2015, respectively. As of September 30, 2016, the Company has recorded total additional interest of approximately \$1,321,000.

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 September 30, 2016, 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. The Company recorded additional interest of approximately \$3,400 during both the three months ended September 30, 2016 and September 30, 2015, and has recorded approximately \$10,100 during both the nine months ended September 30, 2016 and September 30, 2015. As of September 30, 2016, the Company has recorded total additional interest of approximately \$50,000 related to these notes.

**Series A-3 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 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:

|                | <b>Warrants</b> |       |
|----------------|-----------------|-------|
| 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 |
|-------------------------------|---------------|
| 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 Series A-3 OID convertible notes and warrants delivered to the Company a notice of conversion related to the Series A-3 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 Series A-3 OID convertible notes and warrants delivered to the Company a notice of conversion related to the Series A-3 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 September 30, 2016, the Company had not issued the shares due related to the conversion notice.

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-1 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.



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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  | 4 years  |
| Volatility     | 151.52 % |
| Risk Free Rate | 1.32 %   |

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

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

The Series B-1 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-1 OID noteholder and the Company agreed that this anti-dilution provision had been triggered and the Series B-1 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<br>allocated<br>at issue date |
|---------------------------|--|
| Private Offering Notes    | \$ 46,222                              |
| Private Offering Warrants | 18,778                                 |
| Total                     | \$ 65,000                              |

### **Series B-2 OID Convertible Notes and Warrants**

During the quarter ended December 31, 2014, the Company did private offerings of convertible notes and warrants, under which it issued \$358,824 of convertible promissory notes for consideration of \$305,000, the difference between the proceeds from the notes and principal amount consists of \$53,824 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 897,060 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 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 | 1 year   |
| Volatility    | 188.31 % |

Risk Free Rate 0.11 %

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

|                               | Proceeds<br>allocated<br>at issue date |
|-------------------------------|--|
| Private Offering Notes        | \$ 224,679                             |
| Private Offering Warrants     | 57,854                                 |
| Beneficial Conversion feature | 22,467                                 |
| Total                         | \$ 305,000                             |

During the quarter ended June 30, 2015, a holder of Series B-2 OID convertible notes and warrants delivered to the Company a notice of conversion related to the Series B-2 OID convertible notes, with a principal amount of \$5,882. In the quarter ended September 30, 2015, the Company issued 29,410 shares due related to the conversion notice.

As of September 30, 2016, the remaining notes have passed their maturity date. The Company has not repaid the amounts due on these notes and is in default under the terms of the notes.

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:

|                | <b>Warrants</b> |
|----------------|-----------------|
| 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<br>allocated<br>at issue date |
|-------------------------------|--|
| Private Offering Notes        | \$ 197,521                             |
| Private Offering Warrants     | 46,097                                 |
| Beneficial Conversion feature | 13,382                                 |
| <b>Total</b>                  | <b>\$ 257,000</b>                      |

As of September 30, 2016, these notes have passed their maturity date. The Company has not repaid the amounts due on these notes and is in default under the terms of the notes.

During the quarter ended September 30, 2015, the Company did an additional private offering of convertible notes and warrants, under which it issued \$705,882 of convertible promissory notes for consideration of \$600,000, the difference between the proceeds from the notes and principal amount consists of \$105,882 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 1,411,764 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 |
| Expected term  | 1 year   |
| Volatility     | 171.36 % |
| Risk Free Rate | 0.28 %   |

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

|                               |  |
|-------------------------------|--|
|                               | Proceeds<br>allocated<br>at issue date |
| Private Offering Notes        | \$ 342,857                             |
| Private Offering Warrants     | 120,000                                |
| Beneficial Conversion feature | 137,143                                |
| Total                         | \$ 600,000                             |

As of September 30, 2016, these notes have passed their maturity date. The Company has not repaid the amounts due on these notes and is in default under the terms of the notes.

During the quarter ended December 31, 2015, the Company did an additional private offering of convertible notes and warrants, under which it issued \$470,588 of convertible promissory notes for consideration of \$400,000, the difference between the proceeds from the notes and principal amount consists of \$70,588 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 1,176,470 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 |
| Expected term | 1 year   |

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|                |        |   |
|----------------|--------|---|
| Volatility     | 132.44 | % |
| Risk Free Rate | 0.66   | % |

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

|                           | Proceeds<br>allocated<br>at issue date |
|---------------------------|--|
| Private Offering Notes    | \$ 361,991                             |
| Private Offering Warrants | 38,009                                 |
| Total                     | \$ 400,000                             |

During the quarter ended March 31, 2016, the Company did an additional private offering of convertible notes and warrants, under which it issued \$705,882 of convertible promissory notes for consideration of \$600,000, the difference between the proceeds from the notes and principal amount consists of \$105,882 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 3,529,412 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 |   |
|----------------|----------|---|
| Expected term  | 1 year   |   |
| Volatility     | 136.24   | % |
| Risk Free Rate | 0.62     | % |

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

|                               | Proceeds<br>allocated<br>at issue date |
|-------------------------------|--|
| Private Offering Notes        | \$ 454,545                             |
| Private Offering Warrants     | 122,727                                |
| Beneficial Conversion feature | 22,728                                 |
| Total                         | \$ 600,000                             |

As of September 30, 2016, these notes have passed their maturity date. The Company has not repaid the amounts due on these notes and is in default under the terms of the notes.

During the quarter ended June 30, 2016, the Company did an additional private offering of convertible notes and warrants, under which it issued \$705,882 of convertible promissory notes for consideration of \$600,000, the difference between the proceeds from the notes and principal amount consists of \$105,882 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 3,000,000 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**

|                |                     |
|----------------|---------------------|
| Expected term  | 1 year              |
| Volatility     | 128.74-134.16%34.16 |
| Risk Free Rate | 0.55-0.61%          |

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

|                               | Proceeds<br>allocated<br>at issue date |
|-------------------------------|--|
| Private Offering Notes        | \$ 409,174                             |
| Private Offering Warrants     | 111,243                                |
| Beneficial Conversion feature | 79,583                                 |
| Total                         | \$ 600,000                             |

**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.

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:

|                              |   |   |
|------------------------------|---|---|
|                              | Nine months<br>ended<br>September 30,<br>2015 |   |
| Dividend yield (1)           | 0.00  | % |
| Expected volatility (2)      | 164.5   | % |
| Risk-free interest rates (3) | 1.61  | % |
| Expected lives (2)           | 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 nine months ended September 30, 2016, 440,000 options were cancelled and 46,000 options expired.

During both the three and nine months ended September 30, 2016, there were no stock options issued to directors. During the three and nine months ended September 30, 2016, the Company recognized expense of \$7,180 and \$8,260, respectively, for stock options issued to employees and consultants. The Company realized a credit of \$13,280 during the nine months ended September 30, 2016 for options cancelled as a result of the January 2016 resignation of the Company's Chief Financial Officer.

During the nine months ended September 30, 2015, the Company recognized expense of \$7,963 for stock options issued to directors and recognized expense of \$25,006 and \$41,218, respectively, for the three and nine months ended September 30, 2015, 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.

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) September 30, 2016, dividends declared were \$117,274, of which \$4,726 and \$14,075 were declared during the three and nine months ended September 30, 2016, respectively, and are recorded as interest expense. \$98,528 of the total dividends declared have not been paid and are shown in accrued and other liabilities at September 30, 2016.

*Voting rights* – Holders of these shares of Series C Convertible Preferred Stock shall have voting rights equivalent to b) 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 associated with the 375 shares of Series C Convertible Preferred Stock outstanding of \$83,591 and \$66,177 at September 30, 2016 and December 31, 2015, respectively.

The Company has classified the Series C Convertible Preferred Stock as a liability at September 30, 2016 and December 31, 2015 because the variable conversion feature may require the Company to settle the conversion in a variable number of its common shares.

### **Common Stock**

At its December 2, 2010 meeting, the CTI Board of Directors declared a dividend distribution of one right (each, a “Right”) for each outstanding share of common stock, par value \$0.01, of the Company (the “Common Shares”). The dividend was payable to holders of record as of the close of business on December 2, 2010 (the “Record Date”). Issuance of the dividend may be triggered by an investor purchasing more than 20% of the outstanding shares of common stock.

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 September 30, 2016, the Board of Directors has not implemented the Reverse Stock Split.

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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 March 31, 2015, 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 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 March 31, 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 with a five year term for consulting services performed and recorded consulting expense of \$75,000 for the fair value of the warrants.

During the quarter ended June 30, 2016, the Company issued 261,943 shares with a fair value of \$49,769 to Conrad Mir, its President and CEO, for the remainder of his 2015 bonus and his 2015 unused accrued vacation.

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

The Company issued 10,000 and 12,500 shares of its common stock to non-employee directors under its Director Compensation Plan during the three months ended March 31, 2016 and 2015, respectively. The Company recorded expense of \$1,900 and \$2,125 for director stock compensation expense in the three months ended March 31, 2016 and 2015, respectively. No shares were issued under the Director Compensation Plan in the three months ended September 30, 2016 and September 30, 2015. Additionally, no expense was recorded in the three months ended September 30, 2016 and September 30, 2015.

### **13. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES**

As of September 30, 2016, the Company and its majority owned subsidiary, VVI, have remaining obligations, contingent upon receipt of certain revenues, to repay up to \$165,788 and \$199,334, respectively, in consideration of grant funding received in 1994 and 1995. The Company 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. On February 4, 2016, the Company announced that it is discussing a settlement with GEOMC, however, to date, no settlement has been reached.

**CME Acuity Rx, LLC (case pending)** - On June 6, 2016, notice was issued to the Company that on May 26, 2016, CME Acuity Rx, LLC (the “Plaintiff”) filed a complaint against the Company, in the Superior Court of New Jersey. The complaint alleges the Company and Plaintiff entered into an agreement whereby the Company agreed to make payments to Plaintiff in return for services to the Company. 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.

**Joel Bradus (case pending)** – On November 9, 2016, the Company filed a complaint against Joel Bradus, an independent contractor for CME Acuity Rx, LLC, in the Supreme Court of the State of New York, County of New York. The complaint alleges that Mr. Bradus interfered in the business relationship between the Company and CME Acuity Rx, LLC, interfered in the business relationship between the Company and one of its major customers, and engaged in written and oral defamatory conduct against the Company. The Company is seeking actual, consequential, compensatory and punitive damages.

*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.

#### *The Company's Distribution Rights, Marineo and Delta*

On April 8, 2014, Mr. Giuseppe Marineo, 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 the Company, stating that the Company did not have authority to sell, distribute and manufacture the Calmare Device as an exclusive agent of the Group. The Company 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 that time, the Company initiated an effort to find a reasonable and amicable resolution to the situation. To date, despite a number of attempts by the Company, the situation remains unresolved. The Company continues to properly sell and distribute Calmare Devices manufactured under the 2007 Agreement and the 2011 Amendment.

#### **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.

As of September 30, 2016 and December 31, 2015, the Company has \$380,400 and \$308,400, respectively, owed in fees to current directors, which are in Accounts Payable.

As of September 30, 2016, \$2,598,980 of the outstanding Notes payable were Notes payable to related parties; \$2,498,980 to the Chairman of the Board and \$100,000 to another director. As of September 30, 2016, unpaid interest related to these notes amounted to approximately \$1,867,000 to the Chairman of the Board and \$26,000 to another director, which is recorded in Accrued Expenses and Other Liabilities.

Dr. Stephen J. D'Amato, the Company's chief medical officer is also one of the managing members of Calmar Pain Relief, LLC. Calmar Pain Relief purchases from the Company electrodes for use with the Calmare Device. These electrodes are purchased at the same price as those purchased by other customers. In the first nine months of 2016, purchases of electrodes by Calmar Pain Relief totaled \$2,500.

Since October 15, 2015, the Company has 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 estimated 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. As of September 30, 2016, the Company has \$22,500 in consulting fees payable to the Admiral.

## **15. SUBSEQUENT EVENTS**

There are no subsequent events to report.

## **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, 2015, filed with the Securities and Exchange Commission ("SEC") on April 14, 2016, 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 (the "Company") was incorporated in Delaware in 1971 as Competitive Technologies, Inc., succeeding an Illinois corporation incorporated in 1968. Effective August 20, 2014, the Company changed its name from Competitive Technologies, Inc. to Calmare Therapeutics Incorporated. The Company and its majority-owned subsidiary, Vector Vision, Inc., (collectively, "we," "our," or "us"), is a medical device company developing and commercializing innovative products and technologies for chronic neuropathic pain and wound care affliction patients. The Company's flagship medical device, the Calmar<sup>®</sup> Pain Therapy Device (the "Calmare Device"), is the world's only non-invasive and non-addictive modality that can successfully treat chronic, neuropathic pain.

In 2007, the Company entered into an agreement (the “2007 Agreement”) with Giuseppe Marineo (“Marineo”) and Delta Research and Development (“Delta”), Mr. Marineo’s wholly-owned company, collectively (the “Parties”), that secured the exclusive, worldwide sales and distribution rights to the science behind Calmare Pain Mitigation Therapy™ (the “Technology”). Today, this science is effectuated by the Company’s flagship medical device – the Calmare Device. Sales of our Calmare Device continue to be the major source of revenue for the Company. In 2011, the Company’s 2007 agreement was amended (the “2011 Amendment”) to extend the exclusivity rights afforded to the Company by the 2007 Agreement through March 31, 2016. The Company continues to properly sell and distribute Calmare Devices manufactured under the 2007 Agreement and the 2011 Amendment.

In July 2012, the Company and the Parties worked on a five-year extension to the 2011 Agreement (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. Therefore, the Company’s rights are determined by the 2011 Amendment which provides the Company with the exclusive rights to manufacture and sell the Calmare Device worldwide using the Technology. The Company is negotiating an extension to the 2007 Agreement. The Company continues to properly sell and distribute Calmare Devices manufactured under the 2007 Agreement and the 2011 Amendment. (see *the Company’s Distribution Rights, Marineo and Delta* in Footnote 13. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES and below)

In 2010, the Company became its own distributor for the Calmare Device in the U.S, contracting with 15 commissioned sales representatives. During 2011 and 2012, the Company and its representatives developed plans to increase awareness of the Calmare Device among critical medical specialties and began to implement those plans targeting specific customers and locations in 2012. Since then the Company has entered into multiple sales agreements for the Calmare Device. Sales to physicians and medical practices and to others with whom the Company had existing sales agreements continue to generate revenue for the Company. In June 15, 2010, the Company became a government contractor and was granted its first General Services Administration (“GSA”) contract (V797P-4300B) from the U.S. Veterans Administration (the “VA”) for Calmare Devices.

Since 2010 the Company has controlled the sales process for its Calmare® Device. We are the primary obligor, responsible for delivering devices as well as training our customer in the proper use of the Calmare Device. We deal directly with customers, setting pricing and providing training; work directly with the inventor of the technology to develop specifications and any 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 Calmare device as cost of product sales, with gross profit from product sales being the result. The Technology supporting the Calmare Device has patent protection in Italy and the United States. 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.

### **The Company's Distribution Rights, Marineo and Delta**

On April 8, 2014, Mr. Giuseppe Marineo 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 the Company, stating that the Company did not have authority to sell, distribute and manufacture the Calmare Device as an exclusive agent of the Group. The Company 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 that time, the Company initiated an effort to find a reasonable and amicable resolution to the situation. To date, despite a number of attempts by the Company, the situation remains unresolved. The Company continues to properly sell and distribute Calmare Devices manufactured under the 2007 Agreement and the 2011 Amendment.

## **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 September 30, 2016 vs. three months ended September 30, 2015**

### **Summary of Results**

Our net loss, for the quarter ended September 30, 2016, decreased to \$648,000 or \$0.02 per basic and diluted share as compared with a net loss of \$1,063,000 or \$0.04 per basic and diluted share in the three months ended September 30, 2015. This net loss decrease is primarily attributable to an increase in revenue and a decrease in operating expenses offset by an increase in interest expense.

### **Revenue and Gross Profit from Sales**

*Revenue from the sale and shipment of Calmare Devices* in the three months ended September 30, 2016, increased \$268,000 to \$465,000 as compared with \$197,000 in the three months ended September 30, 2015.

*Cost of product sales*, in the three months ended September 30, 2016, increased \$66,000 to \$126,000 as compared with \$60,000 in the three months ended September 30, 2015. This increase in cost of product sales is attributable to the increase in Devices sold in the three months ended September 30, 2015 as compared with the three months ended September 30, 2015.

*Calmare Device sales*, in the three months ended September 30, 2016 and September 30, 2015 were comprised of five (5) and two (2) U.S. private sector sales, respectively.

Due to the relatively long sales cycle for a Calmare Device, Calmare 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 September 30, 2016, increased \$3,000 to \$5,000 compared to \$2,000 in the three months ended September 30, 2015. The increase is primarily the result of the timing of certain royalties that occurred in the three months ended September 30, 2016 as compared to the three months ended September 30, 2015.

Other income, for the three months ended September 30, 2016, increased \$17,000 to \$31,000 as compared with \$14,000 in the three months ended September 30, 2015. Other income includes:

|   | Three<br>Months<br>Ended<br>September<br>30, 2016 | Three<br>Months<br>Ended<br>September<br>30, 2015 |
|---|---|---|
| Training payments and the sale of supplies i.e., electrodes and cables for use with Calmare Devices | \$ 26,000   | \$ 8,000  |
| Rental income from customers who were renting Calmare Devices from the Company                      | \$ 5,000  | \$ 6,000  |

### Expenses

*Total expenses* decreased \$193,000 or 16% to \$1,023,000 in the three months ended September 30, 2016 as compared with \$1,216,000 in the three months ended September 30, 2015.

*Total operating expenses* decreased \$250,000 or 28% to \$635,000 in the three months ended September 30, 2016 as compared with \$885,000 in the three months ended September 30, 2015.

*Selling expenses* decreased 66% or \$45,000 to \$23,000 in the three months ended September 30, 2016 as compared with \$68,000 in the three months ended September 30, 2015. This increase is the result of lower overall commissions paid on the sales of the Devices in the third quarter of 2016 as compared to the third quarter of 2015 primarily due to the sales of four Devices in the third quarter of 2016 without commission.

*Personnel and consulting expenses*, in the three months ended September 30, 2016, decreased 2% or \$11,000 to \$444,000 as compared with \$455,000 in the three months ended September 30, 2015. This decrease is primarily attributable to slight decreases in both personnel and consulting expenses.

*General and administrative expenses*, in the three months ended September 30, 2016, decreased 54% or \$194,000 to \$168,000 as compared with \$362,000 in the three months ended September 30, 2015. The decrease was primarily the result of a decrease of \$103,000 in corporate legal expense costs related to ongoing litigation. Other general and administrative expenses including directors' fees, travel and investor fees also decreased.

*Interest expense*, in the three months ended September 30, 2016, increased \$94,000 or 31% to \$394,000 as compared with \$300,000 in the three months ended September 30, 2015 primarily as a result of the additional OID borrowings in 2015 and 2016.



*Unrealized (gain) loss on derivative instruments*, in the three months ended September 30, 2016, decreased \$36,000 or 116% to (\$5,000) as compared with \$31,000 in the three months ended September 30, 2015. This reflects the impact of the Company's common stock price on the Class C Preferred Stock at the end of each period.

## **Results of Operations – Nine months ended September 30, 2016 vs. nine months ended September 30, 2015**

### **Summary of Results**

Our net loss, for the nine months ended September 30, 2016, decreased to \$2,638,000 or \$0.09 per basic and diluted share as compared with a net loss of \$2,846,000 or \$0.10 per basic and diluted share in the nine months ended September 30, 2015. This net loss decrease is primarily attributable to an increase in revenue and a decrease in operating expenses partially offset by an increase in interest expense.

### **Revenue and Gross Profit from Sales**

*Revenue from the sale and shipment of Calmare Devices* in the nine months ended September 30, 2016, increased \$311,000 to \$716,000 as compared with \$405,000 in the nine months ended September 30, 2015.

*Cost of product sales*, in the nine months ended September 30, 2016, increased \$92,000 to \$200,000 as compared with \$108,000 in the nine months ended September 30, 2015. This increase in cost of product sales is attributable to the increase in sales.

*Calmare Device sales*, in the nine months ended September 30, 2016, were eight (8) Calmare Devices, one to the U.S. military and seven to the U. S. Private sector as compared with four (4) Devices to the U.S. private sector for the nine months ended September 30, 2015.

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

#### **Other Revenue**

Retained royalties, in the nine months ended September 30, 2016, increased \$7,000 to \$14,000 compared to \$7,000 for the nine months ended September 30, 2015. The increase is primarily the result of the timing of certain royalties that occurred in the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015.

Other income, for the nine months ended September 30, 2016, increased \$16,000 to \$55,000 as compared with \$39,000 in the nine months ended September 30, 2015. Other income includes:

|   | Nine<br>Months<br>Ended<br>September<br>30, 2016 | Nine<br>Months<br>Ended<br>September<br>30, 2015 |
|---|--|--|
| Training payments and the sale of supplies i.e., electrodes and cables for use with Calmare Devices | \$ 38,000  | \$ 19,000  |
| Rental income from customers who were renting Calmare Devices from the Company                      | \$ 17,000  | \$ 20,000  |

#### **Expenses**

*Total expenses* increased \$35,000 or 1% to \$3,224,000 in the nine months ended September 30, 2016 as compared with \$3,189,000 in the nine months ended September 30, 2015.

*Total operating expenses* decreased \$404,000 or 16% to \$2,050,000 in the nine months ended September 30, 2016 as compared with \$2,454,000 in the nine months ended September 30, 2015.

*Selling expenses* decreased 23% or \$26,000 to \$86,000 in the nine months ended September 30, 2016 as compared with \$112,000 in the nine months ended September 30, 2015. This decrease is primarily due to the sales of four Devices in the third quarter of 2016 without commission.

*Personnel and consulting expenses*, in the nine months ended September 30, 2016, decreased 1% or \$19,000 to \$1,310,000 as compared with \$1,329,000 in the nine months ended September 30, 2015. This slight decrease is attributable to a \$143,000 decrease in consulting costs offset by a \$123,000 increase in personnel expenses as a result of recent hires.

*General and administrative expenses*, in the nine months ended September 30, 2016, decreased 35% or \$358,000 to \$654,000 as compared with \$1,012,000 in the nine months ended September 30, 2015. The decrease was primarily the result of a decrease of \$263,000 in corporate legal expense costs related to ongoing litigation. Other general and administrative expenses including directors' fees, travel and investor fees also decreased.

*Interest expense*, in the nine months ended September 30, 2016, increased \$466,000 or 67% to \$1,157,000 as compared with \$691,000 in the nine months ended September 30, 2015 primarily as a result of the additional OID borrowings in 2015 and 2016.

*Unrealized loss on derivative instruments*, in the nine months ended September 30, 2016, decreased \$25,000 or 60% to \$17,000 as compared with \$42,000 in the nine months ended September 30, 2015. This reflects the impact of the Company's common stock price on the Class C Preferred Stock at the end of each period.

*Loss on conversion of notes* was \$2,600 for the nine months ended September 30, 2015. There was no loss on conversion of notes in the nine months ended September 30, 2016.

### **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 September 30, 2016, the Company had outstanding debt in the form of promissory notes with a total principal amount of \$6,059,000 and a carrying value of \$5,908,000.

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 the Company's 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 the Company'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.

At September 30, 2016, cash was \$7,000, as compared with \$50,000 at December 31, 2015. Net cash used in operating activities was (\$1,243,000) for the nine months ended September 30, 2016 as compared to (\$1,136,000) for the nine months ended September 30, 2015, primarily reflecting an increase in debt discount amortization and use of inventory offset by a decrease in net loss, non-cash equity expenses, prepaid expenses and accounts payable.

There was no investing activity year to date in 2016 and minimal activity in 2015.

Net cash provided by financing activities was \$1,200,000 for the nine months ended September 30, 2016 as compared to \$1,180,000 for the nine months ended September 30, 2015, 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 deficiency at September 30, 2016. During the three and nine months ended September 30, 2016 and 2015, we had a significant concentration of revenues from sales of our Calmare Devices. 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 Devices and other technologies not occur, the Company may not have sufficient cash flow to fund operations through 2016 and into 2017. 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, the Company will 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 portfolio of technologies. There can be no assurance that the Company will be successful in such efforts. To return to and sustain profitability, we must increase our revenue through sales of our Calmare Devices and other products and services related to the Devices. Our recent contract with the U.S. Government over five years will significantly improve our revenue streams. Failure to develop a recurring revenue stream sufficient to cover operating expenses would negatively affect the Company's financial position.

## Notes Payable

Details of notes payable as of September 30, 2016 are as follows:

| Short term   | 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                      | 3/2014 – 6/2014   |
| Series A-3 OID Convertible Notes and Warrants          | 11,765           | 14,353 (1)     | None               | \$0.25                        | 1 /2015           |
| Series B-2 OID Convertible Notes and Warrants          | 3,323,529        | 3,170,105      | None               | \$0.20 – 0.25                 | 11/2015 – 03/2017 |
| Short term notes payable, gross                        | \$6,059,274      | 5,908,438      |                    |                               |                   |
| Less LPA amount  |                  | (485,980 )     |                    |                               |                   |
| Short term notes payable, net                          |                  | \$5,422,458    |                    |                               |                   |

(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. As of September 30, 2016, there is unpaid interest of \$546,021 related to these notes. 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. Since 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 \$315,000 during the nine months ended September 30, 2016, and has recorded additional interest in total of \$1,321,000.

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 September 30, 2016 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 September 30, 2016, there is also unpaid interest of approximately \$50,000 related to these notes.

### **Series A-3 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 (third tranche) and 958,179 (all tranches) in shares of common stock. The warrants have exercise prices that range from \$0.40 to \$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.

### **Series B-1 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-1 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-1 OID noteholder and the Company agreed that this anti-dilution provision had been triggered and the Series B-1 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.

**Series B-2 OID Convertible Notes and Warrants**

During 2014, the Company did a private offering of convertible notes and warrants, under which it issued \$358,824 of convertible promissory notes for consideration of \$305,000, the difference between the proceeds from the notes and principal amount consists of \$53,824 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 897,060 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 2015, a holder of Series B-2 OID convertible notes and warrants delivered to the Company a notice of conversion related to the Series B-2 OID convertible notes, with a principal amount of \$5,882. In 2015, the Company issued 29,410 shares due related to the conversion notice.

As of September 30, 2016, the remaining notes from 2014 have passed their maturity date. The Company has not repaid the amounts due on these notes and is in default under the terms of the notes.

During 2015, the Company did several private offerings of convertible notes and warrants, under which it issued \$1,478,823 of convertible promissory notes for consideration of \$1,257,000, the difference between the proceeds from the notes and principal amount consists of \$221,823 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 3,344,116 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.

As of September 30, 2016, \$1,008,235 of the notes from 2015 have passed their maturity date. The Company has not repaid the amounts due on these notes and is in default under the terms of the notes.

During the quarter ended March 31, 2016, the Company did an additional private offering of convertible notes and warrants, under which it issued \$705,882 of convertible promissory notes for consideration of \$600,000, the difference between the proceeds from the notes and principal amount consists of \$105,882 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 3,529,412 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. As of September 30, 2016, these notes have reached their maturity date. The Company has not repaid the amounts due on these notes and is in default under the terms of the notes.

During the quarter ended June 30, 2016, the Company did an additional private offering of convertible notes and warrants, under which it issued \$705,882 of convertible promissory notes for consideration of \$600,000, the difference between the proceeds from the notes and principal amount consists of \$105,882 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 3,000,000 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.

## **Capital requirements**

The Company's business model does not require significant capital expenditures to manufacture and distribute the Calmare Device. For 2016, 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 September 30, 2016, the Company and its majority-owned subsidiary, VVI, have remaining obligations, contingent upon receipt of certain revenue, to repay up to \$165,788 and \$199,334, respectively, in consideration of grant funding received in 1994 and 1995. The Company 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, 2015.

**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 September 30, 2016.

(b) Change in Internal Controls

During the period ending September 30, 2016, 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

**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. On February 4, 2016, the Company announced that it is discussing a settlement with GEOMC, however, to date, no settlement has been reached.

**CME Acuity Rx, LLC (case pending)** - On June 6, 2016, notice was issued to the Company that on May 26, 2016, CME Acuity Rx, LLC (the “Plaintiff”) filed a complaint against the Company, in the Superior Court of New Jersey. The complaint alleges the Company and Plaintiff entered into an agreement whereby the Company agreed to make payments to Plaintiff in return for services to the Company. 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.

**Joel Bradus (case pending)** – On November 9, 2016, the Company filed a complaint against Joel Bradus, an independent contractor for CME Acuity Rx, LLC, in the Supreme Court of the State of New York, County of New York. The complaint alleges that Mr. Bradus interfered in the business relationship between the Company and CME Acuity Rx, LLC, interfered in the business relationship between the Company and one of its major customers, and engaged in written and oral defamatory conduct against the Company. The Company is seeking actual, consequential, compensatory, and punitive damages.

### Item 1A. Risk Factors

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K, filed with the SEC on April 14, 2016.

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

There were no unregistered sales of the Company's equity securities during the quarter ended September 30, 2016 that were not otherwise disclosed in a Current Report on Form 8-K.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

There is no other information required to be disclosed under this item which was not previously disclosed..

**Item 6. Exhibits**

| Exhibit No | Description   | Filing Method  |
|------------|---|----------------|
| 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).                   | Filed 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).                   | Filed 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 |



**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 29, 2016 Authorized Signer (Duly Authorized Officer and Principal Executive Officer)

By/s/ Thomas P. Richtarich  
Thomas P. Richtarich  
Chief Financial Officer

December 29, 2016 Authorized Signer (Duly Authorized Officer and Principal Financial Officer)