CALMARE THERAPEUTICS Inc
Form 10-K
June 24, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

Mark One)

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

For the fiscal year ended December 31, 2014
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)

Delaware (State or other jurisdiction of incorporation or organization)	36-2664428 (I. R. S. Employer Identification No.)

1375 Kings Highway East, Suite 400, Fairfield, CT (Address of principal executive offices)	06824 (Zip Code)

Registrant's telephone number, including area code (203) 368-6044

Securities registered pursuant to Section 12(b) of the Act:

None
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($0.01 par value)	OTC Pink

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	Yes ¨	No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	Yes ¨	No x
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was	Yes x	No ¨

required to submit and post such files).

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act).	Yes ¨ No x
State the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates, based on the closing price of $0.36 as reported by the OTCPink Market, as of the last business day of the registrant's most recently completed second quarter (June 30, 2014).	$7,751,425
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.	28,366,478

Calmare Therapeutics Incorporated

TABLE OF CONTENTS

PART I

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 herein, the words "may," "will," "should," "anticipate," "believe," "appear," "intend," "plan," "expect," "estimate," "approximate," and similar expressions are intended to identify such 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 this Annual Report on Form 10-K for the year ended December 31, 2014, 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.

Item 1. Business

Overview:

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

Calmare Therapeutics Incorporated ("CTI" or “the Company”) was incorporated in Delaware in 1971, succeeding an Illinois corporation incorporated in 1968. CTI and its majority-owned subsidiary, Vector Vision, Inc., (collectively, "we," "our," or "us"), provide distribution, patent and technology transfer, sales and licensing services focusing on the needs of our customers, matching those requirements with commercially viable technology or product solutions. We develop relationships with universities, companies, inventors and patent or intellectual property holders to obtain the rights or a license to their intellectual property (collectively, the "technology" or "technologies"), or to their product. They become our clients, for whom we find markets to sell or further develop or distribute their technology or product. We also develop relationships with those who have a need or use for technologies or products. They become our customers, usually through a license or sublicense, distribution agreement, or sales contract.

We earn revenue in two ways: retained royalties from licensing our clients' and our own technologies to our customer licensees, and sales of finished products. We record revenue when the terms of the sales arrangement are accepted by all parties including a fee that is fixed and determinable, delivery has occurred and our customer has taken title, and collectability is reasonably assured.

Since 2011 the Company has controlled the sales process for its Calmare® medical device. We are the primary obligor, responsible for delivering devices as well as for training our customers in the proper use of the 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.

Our revenue fluctuates due to fluctuations in the medical device market for our Calmare® pain therapy device, as well as changes in revenue of our customers, upfront license fees, new licenses granted, new distribution agreements, expiration of existing licenses or agreements, and/or the expiration or economic obsolescence of patents underlying licenses or products.

We acquire rights to commercialize a technology or product on an exclusive or non-exclusive basis, worldwide or limited to a specific geographic area. When we license or sublicense those rights to our customers, we may limit rights to a defined field of use. Technologies can be early, mid, or late stage. Products we evaluate must be working prototypes or finished products. We establish channel partners based on forging relationships with mutually aligned goals and matched competencies to deliver solutions that benefit the ultimate end-user.

The Company has incurred operating losses since fiscal 2006 and has a working capital and shareholders' deficiency at December 31, 2014. We continue to seek revenue from new technologies or products to mitigate the concentration of revenues, and replace revenues from expiring licenses. At current reduced spending levels, the Company may not have sufficient cash flow to fund operations through 2015. 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 other recurring revenue streams sufficient to cover operating costs. If necessary, we will meet anticipated operating cash requirements by further reducing costs, issuing debt or equity, and/or pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining portfolio of technologies. The Company does not have any significant individual cash or capital requirements in the budget going forward. Failure to develop a recurring revenue stream sufficient to cover operating expenses would negatively affect the Company's financial position.

On September 3, 2010, the Company’s securities began trading on the OTCQB marketplace under the ticker symbol CTTC, having been delisted from the NYSE Amex (the "Exchange"). On October 5, 2010, the Company’s securities began trading on the OTC market's top tier, the OTCQX. Effective February 9, 2015, the Company’s securities began trading on the OTCPink.

Product Distribution Services

Our services are beneficial to the inventor, manufacturer and distributor of the product. We evaluate a working prototype or finished product for marketability. We find opportunities through industry connections and contacts, and trade shows. We select products we will represent, negotiate with potential domestic and international distributors, and sign agreements on a country and/or area exclusive basis. We earn revenue on a per-unit basis through product distribution agreements. We share the revenue with the product inventor, and/or manufacturer. For some products, we will act as the distributor in specific geographic areas, again sharing the revenue with product inventor and/ or manufacturer.

Technology Commercialization Services

Our services are beneficial to the provider and user of the technology. The technology client can focus on research and development, rather than selling and marketing, as we effectively become their marketing department. The technology customer can focus on selling and marketing, rather than research and development. We maintain and enforce our clients' and our technology patent rights, by monitoring and addressing infringement. We maximize the value of technologies for the benefit of our clients, customers and shareholders.

We identify and commercialize innovative technologies in life and physical sciences, electronics, and nano science. Life sciences include medical testing, diagnostics, pharmaceuticals, biotechnologies, medical devices and other medical or biological applications. Physical sciences include chemical, display, and environmental applications. Electronics include communications, semiconductors, Internet related, e-commerce and consumer electronics applications. Nanotechnologies are the manipulation of microscopic particles into useful arrangements, and smart or novel materials; a nano particle is one thousand times smaller than the width of a human hair. We have technologies in each area, with a concentration in life sciences.

Portfolio Acquisition and Maintenance

We continue to maintain relationships with universities and inventors, managing the clients, products and technologies we represent, as a premier technology commercialization and product distribution company. The goal is to have a pipeline of technologies and distribution products that will generate a long-term recurring revenue stream.

We evaluate potential technologies based on the strength of the intellectual property, our ability to protect it, its life stage, further development time needed, compatibility with existing technology in our portfolio, marketability, market size, and potential profitability.

We evaluate potential products for distribution based on their capability to fulfill an unmet market need and/or social responsibility. We focus on products that improve quality-of-life. The goal is to acquire products for distribution that have a competitive advantage, proprietary know-how and/or regulatory approval. We seek exclusive rights to manufacture, market and distribute the products. Both products and technologies have the potential to produce different levels of revenue throughout the life of the agreement. We regularly review the revenue potential of our product and technology portfolio to generate a long-term recurring revenue stream.

A non-disclosure agreement signed with a prospective client allows us access to confidential information about the product or technology. We require similar non-disclosure agreements from prospective customers when we commercialize the product or technology. We include mutual non-disclosure provisions about the product or technology in agreements granted to protect value, for CTI, our clients and our customers. As a result of these obligations, as well as federal regulations for disclosure of confidential information, we may only be able to disclose limited information about licenses and sublicenses granted for products or technologies we evaluate, as is necessary for an understanding of our financial results.

Marketing Technologies and Products

We commercialize technologies and products through contacts in research and development, legal firms, major corporations, seminars and trade shows. We determine the most likely users of the technologies or distributors of products, and contact prospective customers.

Technology Protection and Litigation

Protecting our technologies from unintentional and willful patent infringement, domestically and internationally, is an important part of our business. We sometimes assist in preparation of initial patent applications, and often are responsible for prosecuting and maintaining patents. Unintentional infringement, where the infringer usually does not know that a patent exists, can often be resolved by the granting of a license. In cases of willful infringement, certain infringers will continue to infringe absent legal action, or, companies may successfully find work-arounds to avoid paying proper monies to us and our clients for use of our technologies. We defend our technologies on behalf of ourselves, our clients and licensees, and pursue patent infringement cases through litigation, if necessary. Such cases, even if settled out of court, may take several years to resolve, with expenses borne by our clients, us, or shared. Proceeds from the case are usually shared in proportion to the costs. As a result, we may incur significant expenses in some years and be reimbursed through proceeds of awards or settlements several years later. In cases of willful infringement, patent law provides for the potential of treble damages at the discretion of the Court.

Revenue Generation

We license technologies to generate revenue based on usage or sales of the technologies, or by sharing in the profits of distribution. When our customers pay us, we share the revenue with our clients.

Revenue for 2014 primarily represented the sale of Calmare medical devices to end users in the United States. It also includes rental income from situations where we rented Calmare medical devices to end-users in the United States.

Product distribution. We have established a business model for appropriate technologies that allows us to share in the profits of distribution. Distribution terms are set in written agreements for products, and are generally signed for exclusive area parameters.

Sales of Inventory. We currently maintain an inventory of our Calmare pain therapy medical device and we recognize revenue from the sale of inventory as devices are shipped to our customers. The Calmare device is a technologically advanced solution for chronic pain management, which has been shown to be highly effective in the treatment of chemotherapy induced peripheral neuropathy (CIPN), drug-resistant cancer pain and chronic neuropathic pain including failed back surgery syndrome (FBSS), sciatic and lumbar pain, phantom limb syndrome, postherpetic neuralgia (PHN), brachial plexus neuropathy, and low back pain (LBP); having long-lasting effects — an important benefit for both patients and their physicians.

Sales of our Calmare device continue to be the major source of revenue for the Company. The Company acquired the exclusive, worldwide rights to the *Scrambler Therapy*® technology in 2007. The Company's original 2007 agreement with Giuseppe Marineo (the "Scrambler Therapy Agreement"), an inventor of *Scrambler Therapy* technology ("ST"), and Delta Research and Development ("Delta"), authorized CTI to manufacture and sell worldwide the device developed from the patented ST. The original agreement was amended in 2011 to provide the Company with exclusive rights to the ST through March 31, 2016. In July 2012, the Company attempted to negotiate a five-year extension to the agreement with Marineo and Delta (the "2012 Amendment"). However, the Company believes that the 2012 Amendment is neither valid nor enforceable as it was never duly signed or authorized and subsequently deemed null and void (see Footnote 16. COMMITMENTS AND CONTINGENCIES, *CTI's Distribution Rights, Marineo and Delta*). ST is patented in Italy and in the U.S. Applications for patents have been filed internationally as well and are pending approval. The Calmare Device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance. CTI's partner, GEOMC Co., Ltd. ("GEOMC") of Korea, is manufacturing the product commercially under a ten (10) year agreement through 2017.

CTI's Distribution Rights, Marineo and Delta

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

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

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

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

We record revenue from the sales of inventory when the terms of the sales arrangement are accepted by all parties including a fee that is fixed and determinable, delivery has occurred and our customer has taken title, and collectability is reasonably assured. We are the primary obligor, responsible for delivering devices as well as for training our customers in the proper use of the 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.

Technology royalties Client and customer agreements are generally for the duration of the technology life, which usually is determined by applicable patent law. When we receive customer reports of sales or payments, whichever occurs first, we record revenue for our portion, and record our obligation to our clients for their portion. For early stage technologies that may not be ready for commercial development without further research, we may receive annual minimum payments and/or milestone payments based on research progress or subsequent sublicense or joint venture proceeds. In certain sublicense or license agreements, we may receive an upfront fee upon execution of the license. Our fees are generally non-refundable, and, except for annual minimums, are usually not creditable against future royalties. In certain cases, the first year or several years' royalties may be waived in consideration for an upfront fee. We may apply the upfront fee or initial fees to reimburse patent prosecution and/or maintenance costs incurred by either party. In these cases, payments are recorded as a reduction of expense, and not as revenue. If the reimbursement belongs solely to our client, we record no revenue or expense. As a result, a new technology may not generate significant revenue in its early years.

Licensing terms are documented in written agreements with customers. We generally enter into single element agreements with customers, under which we have no additional obligations other than patent prosecution and maintenance. We may enter into multiple element agreements under which we have continuing service obligations. All revenue from multiple element agreements is deferred until delivery of all verifiable required elements. In milestone billing agreements we recognize non-refundable, upfront fees ratably over the life of the agreement, and milestone payments as the specified milestone is achieved. We evaluate billing agreements on a case-by-case basis, and record revenue as appropriate. We do not have multiple element or milestone billing agreements at this time, but have had such agreements in the past, and could have in the future.

In 2014, we had a significant concentration of revenue from our Calmare medical device. We actively market other technologies, and seek new technologies to mitigate this concentration of revenue and provide a steady future revenue stream. However, the Calmare device was the only technology that produced revenue equal to or exceeding 15% of our total revenue in 2014 and 2013.

We receive revenue from legal awards that result from successful patent enforcement actions and/or out of court settlements. Such awards or settlements may be significant, are non-recurring and may include punitive damages, attorneys' fees, court costs and interest. No such awards were received in 2014 or 2013.

Other technologies in our life sciences portfolio, many of which are subject to testing, clinical trials and approvals, include:

- Nano particle bone cement biomaterial with a broad range of potential applications, including dental, spinal and other orthopedic and trauma related applications, available for licensing for all applications;

- Sunless tanning agent, a skin-pigment enhancer being researched as a skin cancer preventative, and therapeutic for vitiligo, albinism and psoriasis, exclusively licensed to Clinuvel Pharmaceuticals, Ltd. (Australia);

- Sexual Dysfunction technology, CTI and its partners have conducted a research program in support of the commercialization of our patented melanocortin analogues for treating male and female sexual dysfunction and obesity.

Our applied science/electronics portfolio includes:

- Encryption technology that operates at high speeds with low memory requirements to secure applications used on the Internet, telecommunications, smart cards and e-commerce;

- Video and audio signal processing technology licensed in the Motion Picture Electronics Group visual patent portfolio pool (MPEG 4 Visual), and used in streaming video products for personal computers and wireless devices, including mobile phones;

- Structural Steel Fissure Detection Paint contains a built-in, self-activating, crack-indicating or warning capability effective coincident with application of the paint to the structure, and requiring minimum training for its use.

Employees

As of June 23, 2015, we employed the full-time equivalent of six (6) people. We also had independent consultants under contract to provide financial management services, business development services, and sales management services. In addition to the diverse technical, intellectual property, legal, financial, marketing and business expertise of our professional team, from time to time we rely on advice from outside specialists to fulfill unique technology and other needs.

Corporate Governance

CTI's Corporate Governance Principles, Corporate Code of Conduct, the Committee Charters for the Audit and Nominating Committees of the Board of Directors, the unofficial restated Certificate of Incorporation and the By-Laws are available on our website at *www.calmaretherapeutics.com/investors/governance.html*.

Available Information

We make available without charge copies of our Annual Report, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those, and other reports filed with the Securities and Exchange Commission ("SEC") on our website, *www.calmaretherapeutics.com*, as soon as reasonably practicable after they are filed. Our website's content is not intended to be incorporated by reference into this report or any other report we file with the SEC. You may request a paper copy of materials we file with the SEC by calling us at (203) 368-6044.

You may read and copy materials we file with the SEC on the SEC's website at *www.sec.gov*, or at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling (800) 732-0330.

Item 1A. Risk Factors

Risks Related to our Business and the Market Environment

The risk factors described below are not all-inclusive. All risk factors should be carefully considered when evaluating our business, results of operations, and financial position. We undertake no obligation to update forward-looking statements or risk factors. There may be other risks and uncertainties not highlighted herein that may affect our financial condition and business operations.

Our exclusive, worldwide rights to sell the Scrambler Therapy technology, marketed as Calmare, which accounted for 94% of our total revenue in 2014, will expire on March 31, 2016 unless action is taken by the Company.

The Company acquired the exclusive, worldwide rights to the *Scrambler Therapy*® technology in 2007. The Company's original 2007 agreement with Giuseppe Marineo (the "Scrambler Therapy Agreement"), an inventor of *Scrambler Therapy* technology ("ST"), and Delta Research and Development ("Delta"), authorized CTI to manufacture and sell worldwide the device developed from the patented ST. The original agreement was amended in 2011 to provide the Company with exclusive rights to the ST through March 31, 2016. In July 2012, the Company attempted to negotiate a five-year extension to the agreement with Marineo and Delta (the "2012 Amendment"). However, the Company believes that the 2012 Amendment is neither valid nor enforceable as it was never duly signed or authorized and subsequently deemed null and void. The *Scrambler Therapy* technology is patented in Italy and the U.S. Additional applications for patents have been filed internationally and are pending approval. The Calmare® device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance.

Delta International Service & Logistics, an entity related to the entities from whom Calmare Therapeutics received the exclusive worldwide rights to the Scrambler Therapy® technology in 2007, has directly received FDA 510(k) clearance for Scrambler Therapy technology

Delta International Service & Logistics (DIS&L) received FDA 510(k) clearance for the Scrambler Therapy technology on May 22, 2015 and is authorized to market the technology effective June 15, 2015.

The Company acquired the exclusive, worldwide rights to the Scrambler Therapy technology in 2007 in an agreement with Giuseppe Marineo and Delta Research and Development. The 2007 agreement was amended in 2011 to provide the Company with exclusive rights through March 31, 2016. The Scrambler Therapy technology received FDA 510(k) clearance in 2009.

It is currently unclear to the Company why DIS&L sought a separate FDA 510(k) clearance and how this action will impact the Company. This action could negatively affect the Company's sales of the Calmare medical device through the end of its current agreement (March 31, 2016), negatively affect the Company's ability to license the technology after the end of its current agreement and negatively affect the Company's sales of the Calmare medical device subsequent to the end of its current agreement, each of which could have a material impact on our ongoing business.

Our current five year contract to sell the Calmare medical device to the U.S. government, which accounted for more than 5% of total revenues in both 2014 and 2013, expired on June 15, 2015

Calmare medical device sales to the U.S. government represented 6% and 22% of total unit sales in 2014 and 2013, respectively, and 5% and 16% of total dollar sales in 2014 and 2013, respectively.

Our current five year contract with the U.S. government expired on June 15, 2015. We have obtained a short term temporary extension (three months) to our current contract. We are working to obtain a new long term contract, including a five year contract with terms similar to the contract that expired on June 15, 2015. We can provide no assurance that we will be successful in these efforts. In the event that the contract is not renewed, it could have a material impact on our ongoing business.

We derived more than 94% of our total revenue in 2014 from one technology.

Total revenue consists of revenue from product sales, retained royalties, and other income. We derived approximately $1,045,000, or 90%, of 2014 revenue from sales of our Calmare pain therapy medical device technology. An additional 4% of revenue was derived indirectly from that technology through sales of supplies and training, rental payments and the sale of rental assets. A concentration of revenue makes our operations vulnerable to patent changes or expiration, or to variability in the medical device market, or to the development of new and competing technologies and could have a significant adverse impact on our financial position.

In the last five fiscal years, we incurred significant net losses and negative cash flows, and our ability to finance future losses is limited, and may significantly affect existing stockholders.

The Company has incurred operating losses since fiscal 2006 and has a working capital and shareholders' deficiency at December 31, 2014. At current reduced spending levels, the Company may not have sufficient cash flow to fund operations through 2015. 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 other recurring revenue streams sufficient to cover operating costs. If necessary, we will meet anticipated operating cash requirements by further reducing costs, issuing debt or equity, and/or pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining portfolio of technologies. The Company does not have any significant individual capital requirements in the budget going forward. Failure to develop a recurring revenue stream sufficient to cover operating expenses would negatively affect the Company’s financial position.

Our current recurring revenue stream is insufficient for us to be profitable with our present cost structure. To return to and sustain profitability, we must increase recurring revenue by successfully licensing technologies with current and long-term revenue streams, and continue to build our portfolio of innovative technologies. We significantly reduced overhead costs with staff reductions across all company departments, reduced extraneous litigations, and obtained new technologies to build revenue. We will continue to monitor our cost structure, and expect to operate within our generated revenue and cash balances.

Future revenue, obtaining rights to new technologies, granting licenses, and enforcing intellectual property rights are subject to many factors beyond our control. These include technological changes, economic cycles, and our licensees' ability to successfully commercialize our technologies. Consequently, we may not be able to generate sufficient revenue to be profitable. 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 successfully executing our strategy will be sufficient to meet our obligations of current and anticipated operating cash requirements.

We depend on relationships with inventors to gain access to new technologies and inventions. If we fail to maintain existing relationships or to develop new relationships, we may have fewer technologies and inventions available to generate revenue. Technology can change rapidly and industry standards continually evolve, often making products obsolete, or resulting in short product lifecycles. Our profitability depends on our licensees' ability to adapt to such changes.

We do not invent new technologies or products. We depend on relationships with universities, corporations, government agencies, research institutions, inventors, and others to provide technology-based opportunities that can develop into profitable licenses, and/or allow us to share in the profits of distribution. Failure to maintain or develop relationships could adversely affect operating results and financial conditions. We are dependent upon our clients' abilities to develop new technologies, introduce new products, and adapt to technology and economic changes.

We cannot be certain that current or new relationships will provide the volume or quality of technologies necessary to sustain our business. In some cases, universities and other technology sources may compete against us as they seek to develop and commercialize technologies. Universities may receive financing for basic research in exchange for the exclusive right to commercialize resulting inventions. These and other strategies may reduce the number of technology sources, potential clients, to whom we can market our services. If we are unable to secure new sources of technology, it could have a material adverse effect on our operating results and financial condition.

We receive most of our revenue from customers over whom we have no control.

We rely on our customers for revenue. Development of new products utilizing our technologies involves risk. Many technologies do not become commercially profitable products despite extensive development efforts. Our license agreements do not require customers to advise us of problems they encounter in development of commercial products, and usually treat such information as confidential. Their failure to resolve problems may result in a material adverse effect on our operating results and financial condition.

Strong competition within our industry may reduce our client base.

We compete with universities, law firms, venture capital firms and other technology commercialization firms. Many organizations offer some aspect of technology transfer services, and are well established with more financial and human resources than we provide. This market is highly fragmented and participants frequently focus on a specific technology area.

From time-to-time we are involved in lawsuits, and in particular, patent litigations, that historically have involved significant legal expenses. If the courts or regulatory agencies in these suits or actions decide against us, this could have a material adverse effect on our business, results of operations and financial condition.

Our clients and/or we may pursue patent infringement litigation or interference proceedings against holders of conflicting patents or sellers of competing products that we believe infringe our patent rights. We cannot be certain that our clients and/or we will be successful in any litigation or proceeding. The costs and outcome may materially adversely affect our business, operating results and financial condition.

For a complete description of all lawsuits in which we are currently involved, see “Item 3. Legal Proceedings.”

Our revenue growth depends on our ability to understand the technology requirements of our customers in the context of their markets. If we fail to understand their technology needs or markets, we limit our ability to meet those needs and generate revenues.

By focusing on the technology needs of our customers, we are better positioned to generate revenue by providing technology solutions. The market demands of our customers drive our revenue. The better we understand their markets, the better we are able to identify and obtain effective technology solutions for our customers. We rely on our professional staff and contract business development consultants to understand our customers' technical, commercial, and market requirements and constraints, to identify and obtain effective technology solutions for them.

Our customers, and we, depend on government approvals to commercially develop certain licensed products.

Commercial development of some licensed patents may require the approval of foreign or domestic governmental regulatory agencies, especially in the life sciences area, and there is no assurance that those agencies will grant such approvals. In the United States, the principal governmental agency involved is the U.S. Food and Drug Administration ("FDA"). The FDA's approval process is rigorous, time consuming and costly. Until a licensee obtains approval for a product requiring such approval, the licensee may not sell the product in the U.S., and therefore we will not receive revenue based on U.S. sales.

We and our customers depend on government and private insurance reimbursement to develop commercially viable medical products.

Successful commercialization of medical products demands appropriate reimbursement rates from government and private medical insurance programs. In the US, the Centers for Medicare and Medicaid Services (CMS) sets reimbursement rates for medical procedures. Private insurance companies independently develop reimbursement rates for medical procedures as well. There is no assurance that rates will be set on the schedule or at the rates that we and our customers prefer. A lack of sufficient insurance reimbursement may cause customers to delay purchases of a new medical technology, pending the availability of reimbursement.

If we, and our clients, are unable to protect the intellectual property underlying our licenses, or to enforce our patents adequately, we may be unable to develop such licensed patents or technologies successfully.

License revenue is subject to the risk that issued patents may be declared invalid, may not be issued upon application, or that competitors may circumvent or infringe our licensed patents rendering them commercially inadequate. When all patents underlying a license expire, our revenue from that license ceases, and there can be no assurance that we will be able to replace it with revenue from new or existing licenses.

Developing new products and creating effective commercialization strategies for technologies are subject to inherent risks that include unanticipated delays, unrecoverable expenses, technical problem, and the possibility that development funds will be insufficient. The occurrence of any one or more of these risks could cause us to abandon or substantially change our technology commercialization strategy.

Our success depends upon, among other factors, our clients' ability to develop new or improved technologies, and our customers' products meeting targeted cost and performance objectives for large-scale production, adapting technologies to satisfy industry standards and consumer expectations and needs, and bringing the product to market before saturation. They may encounter unanticipated problems that result in increased costs or substantial delays in the product launch. Products may not be reliable or durable under actual operating conditions, or commercially viable and competitive. They may not meet price or other performance objectives when introduced into the marketplace. Any of these events may adversely affect our realization of revenue from new products.

In developing new products we are affected by patent laws and regulations.

Patent laws and regulations are continuously reviewed for possible revision. We cannot be certain how we will be affected by revisions.

Risks Related to Our Common Stock

We have not paid dividends on our common stock.

We have not paid cash dividends on our common stock since 1981, and, our Board of Directors does not currently have plans to declare or pay cash dividends in the future. The decision to pay dividends is solely at the discretion of our Board of Directors based upon factors that they deem relevant, and may change at any time.

Our shares are listed for trading on the OTC Marketplace, and our shares will likely be classified as a "penny stock" as that term is generally defined in the Securities Exchange Act of 1934 to mean equity securities with a price less than $5.00. Our shares will be subject to rules that impose sales practice and disclosure requirements on broker-dealers who engage in certain transactions involving a penny stock.

We are subject to the penny stock rules adopted by the Securities and Exchange Commission that require brokers to provide extensive disclosure to its customers prior to executing trades in penny stocks. These disclosure requirements may cause a reduction in the trading activity of our common stock, which in all likelihood would make it difficult for our stockholders to sell their securities.

Under the penny stock regulations, a broker-dealer selling a penny stock to anyone other than an established customer or accredited investor must make a special suitability determination regarding the purchaser and must receive the purchaser's written consent to the transaction prior to the sale, unless the broker-dealer is otherwise exempt. Generally, an individual with a net worth in excess of $1,000,000, or annual income exceeding $200,000 individually, or $300,000 together with his or her spouse, is considered an accredited investor. In addition, under the penny stock regulations the broker-dealer is required to:

- Deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt;
- Disclose commissions payable to the broker-dealer and our registered representatives and current bid and offer quotations for the securities;
- Send monthly statements disclosing recent price information pertaining to the penny stock held in a customer's account, the account's value and information regarding the limited market in penny stocks;
- Make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction, prior to conducting any penny stock transaction in the customer's

account.

Because of these regulations, broker-dealers may encounter difficulties in their attempt to sell shares of our common stock, which may affect the ability of selling stockholders or other holders to sell their shares in the secondary market and have the effect of reducing the level of trading activity in the secondary market. These additional sales practice and disclosure requirements could impede the sale of our securities. In addition, the liquidity for our securities may be decreased, with a corresponding decrease in the price of our securities. Our shares in all probability will be subject to such penny stock rules and our stockholders will, in all likelihood, find it difficult to sell their securities.

Our common stock is subject to price volatility unrelated to our operations.

The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting us or our competitors. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

Sales of substantial amounts of our common stock in the public market could depress the market price of our common stock.

The sale of a substantial amount of common stock in the public market, or the perception that such sales may occur, could cause the market price of our common stock to decline.

The OTC Marketplace, is a quotation system, not an issuer listing service, market or exchange. Therefore, buying and selling stock on the OTC Marketplace is not as efficient as buying and selling stock through an exchange. As a result, it may be difficult for you to sell your common stock or you may not be able to sell your common stock for an optimum trading price.

The OTC Marketplace is a regulated quotation service that displays real-time quotes, last sale prices and volume limitations in over-the-counter securities. Our common stock is traded on the OTC Pink Marketplace, or OTCPink, which is the lowest trading tier of the OTC Marketplace. Nevertheless, because trades and quotations on the OTCBB involve a manual process, the market information for such securities cannot be guaranteed. In addition, quote information, or even firm quotes, may not be available. The manual execution process may delay order processing and intervening price fluctuations may result in the failure of a limit order to execute or the execution of a market order at a significantly different price. Execution of trades, execution reporting and the delivery of legal trade confirmations may be delayed significantly. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

When fewer shares of a security are being traded on the OTC Marketplace, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Lower trading volumes in a security may result in a lower likelihood of an individual’s orders being executed, and current prices may differ significantly from the price one was quoted by the OTC Marketplace at the time of the order entry. Orders for OTC Marketplace securities may be canceled or edited like orders for other securities. All requests to change or cancel an order must be submitted to, received and processed by the OTC Marketplace. Due to the manual order processing involved in

handling OTC Marketplace trades, order processing and reporting may be delayed, and an individual may not be able to cancel or edit his order. Consequently, one may not be able to sell shares of common stock at the optimum trading prices.

The dealer's spread (the difference between the bid and ask prices) may be large and may result in substantial losses to the seller of securities on the OTC Marketplace if the common stock or other security must be sold immediately. Further, purchasers of securities may incur an immediate "paper" loss due to the price spread. Moreover, dealers trading on the OTC Marketplace may not have a bid price for securities bought and sold through the OTC Marketplace. Due to the foregoing, demand for securities that are traded through the OTC Marketplace may be decreased or eliminated.

We anticipate the need to sell additional authorized shares or securities convertible or exchangeable into authorized shares, including convertible debt and warrants, in the future. This will result in a dilution to our existing shareholders and a corresponding reduction in their percentage ownership in the Company.

We may seek additional funds through the sale of our common stock or securities convertible or exchangeable into authorized shares, including convertible debt and warrants. This will result in a dilution effect to our shareholders whereby their percentage ownership interest in the Company is reduced. The magnitude of this dilution effect will be determined by the number of shares we will have to issue in the future to obtain the funds required. The sale of additional stock to new shareholders will reduce the ownership position of the current shareholders. The price of each share outstanding common share may decrease in the event we sell additional shares.

Since our securities are subject to penny stock rules, you may have difficulty reselling your shares.

Our shares are "penny stocks" and are covered by Section 15(d) of the Securities Exchange Act of 1934 which imposes additional sales practice requirements on broker/dealers who sell our securities including the delivery of a standardized disclosure document; disclosure and confirmation of quotation prices; disclosure of compensation the broker/dealer receives; and, furnishing monthly account statements. For sales of our securities, the broker/dealer must make a special suitability determination and receive from its customer a written agreement prior to making a sale. The imposition of the foregoing additional sales practices could adversely affect a shareholder's ability to dispose of his stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company leases approximately 2,700 square feet of office space in Fairfield, Connecticut. Effective October 2013, the Company extended the term of the lease through February 2017 with an average annual cost of approximately $63,000.

Item 3. 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.

General Litigation – 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 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.

Item 4. Mine Safety Disclosures (Not Applicable)

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock had been traded on the NYSE Amex under the ticker symbol CTT since April 25, 1984. On September 3, 2010, our stock was delisted from the NYSE Amex and began trading on the OTCQB under the ticker symbol CTTC. On October 5, 2010, our stock began trading on the OTC market's top tier, the OTCQX. On February 9, 2015 our stock began trading on the OTCPink. The following table sets forth for the periods indicated, the quarterly high and low trading prices for our common stock, as reported the OTCQX.

Year Ended December 31, 2014			Year Ended December 31, 2013		
	High	Low		High	Low
First Quarter	$0.45	$0.20	First Quarter	$0.63	$0.28
Second Quarter	$0.55	$0.29	Second Quarter	$0.42	$0.13
Third Quarter	$0.33	$0.08	Third Quarter	$0.29	$0.06
Fourth Quarter	$0.29	$0.11	Fourth Quarter	$0.48	$0.05

Holders of Common Stock. At June 23, 2015, there were 500 holders of record of our common stock.

Dividend Policy. We have not declared or paid cash dividends on our common stock since 1981, and do not anticipate paying any cash dividends in the foreseeable future. We expect to retain available cash to finance ongoing operations and the potential growth of our business. Any future determination to pay dividends on our common stock will be at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements, contractual restrictions, business prospects and other factors our board of directors may deem relevant.

Equity Compensation Plan Information

The following table summarizes securities available under our equity compensation plans as of December 31, 2014.

	Weighted average per	Shares issuable upon	Shares issuable upon	Total shares issuable	Number of

	share exercise price of stock options	exercise of outstanding stock options	vesting of outstanding restricted stock units	Under Current Outstanding awards	Securities available for future issuance
Equity compensation plans approved by security holders:					
None					-
Equity compensation plans not approved by security holders:					
1997 Employee Stock Option Plan	$ 2.66	55,000	-	55,000	-
2000 Directors' Stock Option Plan	$ 1.57	120,000	-	120,000	-
2011 Employees', Directors' and Consultants' Stock Option Plan	$ 0.27	1,517,500	-	2,000,000	482,500

Issuer Repurchases of Equity Securities

None.

Unregistered Sales of Equity Securities

Common stock

During 2014, the Company did a series of private offerings of its common stock and warrants, for consideration of $830,500. 4,152,500 shares of common stock were issued at a per share price of $0.20. The common stock holders were also issued warrants to purchase 2,076,250 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 2014, the Company issued 60,000 shares to a consulting firm for marketing services performed and recorded consulting expense of $10,200 for the fair value of the stock.

During 2014, the Company issued 333,333 stock warrants with a fair value of $75,000 for consulting services. The Company is amortizing the $75,000 over the service period and recorded $37,500 of expense in 2014.

During 2014, the Company issued 10,625 shares of its common stock to non-employee directors under its Director Compensation Plan. The Company recorded expense of $4,038 for director stock compensation expense in 2014.

During the quarter ended June 30, 2014, the Company granted 320,000 options to employees. As approved by the Board of Directors, these options vest over a four (4) year period, with 20% of the options vested upon issuance.

Series A 15% Original Issue Discount Convertible Notes and Warrants

During the quarter ended March 31, 2014, the Company did a private offering of a third tranche of convertible notes and warrants, under which it issued $64,706 of convertible promissory notes for consideration of $55,000, the difference between the proceeds from the notes and principal amount consists of $9,706 of original issue discount.

The notes are convertible at an initial conversion price of $0.20 per share any time after issuance. The note holders were also issued market-related warrants for 161,765 in shares of common stock. The warrants have an exercise price of $0.60 and a term of 2 years.

Series B Original Issue Discount Convertible Notes and Warrants

During the quarter ended March 31, 2014, the Company did a private offering of convertible notes and warrants, under which it issued $80,000 of convertible promissory notes for consideration of $65,000, the difference between the proceeds from the notes and principal amount consists of $15,000 of original issue discount. The notes are convertible at an initial conversion price of $0.35 per share any time after issuance. 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 Series B OID notes include an anti-dilution provision that if the Company issues more than 20 million shares of its common stock, subject to certain exceptions, the conversion price of the notes and the conversion price of the warrants would be subject to an automatic pre-determined price adjustment. During the quarter ended December 31, 2014 the Series B OID noteholder and the Company agreed that this anti-dilution provision had been triggered and the OID note share conversion price was adjusted down to $0.23 per share, which increased the number of shares available upon conversion to 347,826. The anti-dilution provision in the Warrant changed the share purchase price downward to $0.33 per share but did not change the number of shares available under the Warrant.

1 Year 15% OID Convertible Notes and Warrants

During the quarter ended December 31, 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. 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.

CALMARE THERAPEUTICS INCCORPORATED

Item 6. Selected Financial Data

Not required.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

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 herein, the words "may," "will," "should," "anticipate," "believe," "appear," "intend," "plan," "expect," "estimate," "approximate," and similar expressions are intended to identify such 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 this Annual Report on Form 10-K for the year ended December 31, 2014, 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

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

Calmare Therapeutics Incorporated ("CTI") was incorporated in Delaware in 1971, succeeding an Illinois corporation which had incorporated in 1968. CTI and its majority-owned subsidiary (collectively, "we", "our", or "us") provide distribution, patent and technology transfer, sales and licensing services focusing on the needs of our customers, matching those requirements with commercially viable technology or product solutions. We develop relationships with universities, companies, inventors and patent or intellectual property holders to obtain the rights or a license to their intellectual property or to their product. They become our clients, for whom we find markets to sell or further develop or distribute their technology or product. We also develop relationships with those who have a need or use for technologies or products. They become our customers, usually through a license or sublicense, distribution agreement or sales contract.

Our revenue fluctuates due to changes in revenue of our customers, upfront license fees, new licenses granted, new distribution agreements, expiration of existing licenses or agreements, and/or the expiration or economic obsolescence of patents underlying licenses or products.

We acquire rights to commercialize a technology or product on an exclusive or non-exclusive basis, worldwide or limited to a specific geographic area. When we license or sublicense those rights to our customers, we may limit rights to a defined field of use. Technologies can be early, mid, or late stage. Products we evaluate must be working

prototypes or finished products. We establish channel partners based on forging relationships with mutually aligned goals and matched competencies to deliver solutions that benefit the ultimate end-user.

We earn revenue in two ways: retained royalties from licensing our clients' and our own technologies to our customer licensees, and sales of finished products. We record revenue when the terms of the sales arrangement are accepted by all parties including a fee that is fixed and determinable, delivery has occurred and our customer has taken title, and collectability is reasonably assured.

Since 2011 the Company has controlled the sales process for its Calmare® medical device. We are the primary obligor, responsible for delivering devices as well as training our customer in the proper use of the 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 device as cost of product sales, with gross profit from product sales being the result.

Sales of our Calmare device continue to be the major source of revenue for the Company. The Company’s original 2007 agreement with Giuseppe Marineo (the "Scrambler Therapy Agreement"), an inventor of *Scrambler Therapy* technology (“ST”), and Delta Research and Development (“Delta”), authorized CTI to manufacture and sell worldwide the device developed from the patented ST. The original agreement was amended in 2011 to provide the Company with exclusive rights to the ST through March 31, 2016. In July 2012, the Company attempted to negotiate a five-year extension to the agreement with Marineo and Delta (the “2012 Amendment”). However, the Company believes that the 2012 Amendment is neither valid nor enforceable as it was never duly signed or authorized and subsequently deemed null and void . The *Scrambler Therapy* technology is patented in Italy and the U.S. Additional applications for patents have been filed internationally and are pending approval. The Calmare® device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance.

CTI's Distribution Rights, Marineo and Delta

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

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

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

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

Reliance on one revenue source. In 2014, we had a significant concentration of revenue from our pain therapy medical device technology. We continue to seek revenue from new and existing technology licenses to mitigate the concentration of revenue, and replace revenue from expiring licenses.

Presentation. All amounts in this Item 7 have been 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 – 2014 versus 2013

Summary of Results

Our net loss, for 2014, increased to $3,411,000 or $0.15 per basic and diluted share as compared with a net loss of $2,672,000 or $0.16 per basic and diluted share for 2013. This net loss increase is primarily attributable to an increase in interest expense, partially offset by an increase in product sales and a decrease in operating expenses.

Revenue and Gross Profit from Sales

Revenue from the sale and shipment of Calmare® pain therapy medical devices (the "Devices"), for 2014, increased 60% or $392,000 to $1,045,000 as compared with $653,000 for 2013.

Cost of product sales, for 2014, increased 62% or $168,000 to $441,000 as compared with $273,000 for 2013. The increase is consistent with the increase in revenues during the same period.

Device sales, for 2014 increased with the sale of seventeen (17) Devices as compared with nine (9) Device sales for 2013. Device sales for 2014 were comprised of ten (10) U.S. private sector, one (1) U.S. military and six (6) international sales as compared to seven (7) U.S. private sector and two (2) U.S. military sales for 2013.

International sales for 2014 were to distributors, and as such, had a lower sales price compared to non-international sales.

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

Other Revenue

Retained royalties, for 2014 decreased by 24% or $9,000, to $28,000 as compared with the $37,000 of retained royalties for 2013. The decrease in retained royalties reflects the Company's continued change in business.

Other income, for 2014, increased 11% or $9,000 to $91,000 as compared with $82,000 for 2013. Other income includes*:*

	2014	2013
Training payments and the sale of supplies i.e., electrodes and cables for use with our Calmare® devices	$17,000	$15,000
Rental income from customers renting Calmare® pain therapy medical devices	$25,000	$29,000

In addition to the above described break-down, the Company received a one-time payment in 2013 from one of our insurance companies for its conversion to a stock insurance company totaling $38,000. The Company also, received $45,000 in 2014 as partial settlement related to a legal judgment from a prior year.

Expenses

Total expenses, for 2014, increased 30% or $963,000 to $4,134,000 as compared with $3,171,000 for 2013.

Total operating expenses, for 2014, decreased 2% or $67,000 to $2,953,000 as compared with $3,020,000 for 2013.

Selling expenses, for 2014, increased 34% or $54,000 to $213,000 compared with $159,000 for 2013. The increase primarily reflects the increase in Device sales coupled with a change in the mix in sales by type (U.S. private sector, U.S. military and international).

Personnel and consulting expenses, for 2014, increased 24% or $268,000 to $1,368,000 as compared with $1,100,000 for 2013. Personnel expenses, for 2014, increased 2% or $21,000 to $922,000, as compared with $901,000 for 2013. Consulting expenses, for 2014, increased 125% or $248,000 to $447,000, as compared with $199,000 for 2013. The increase in consulting fees primarily relate to external marketing, sales and investment/funding consultants.

General and administrative expenses, for 2014, decreased 22% or $390,000 to $1,371,000 as compared with $1,761,000 for 2013. The change includes the net effect of:

(a) $93,000 increase in travel expenses due to increased marketing and sales efforts;

(b) $225,000 decrease in legal expenses, due to a decrease in matters warranting legal advice;

(c) $105,000 decrease in audit and tax services fees related to the timing of activities;

(d) $121,000 decrease in investor and public relations expenses, due to the termination of a consulting agreement in late 2013;

(f) $208,000 increase in bad debt expense, due to an increase in overdue receivables; and

(g) $214,000 decrease in finance costs, primarily related the Tonequint transaction.

Interest expense, for 2014, increased $754,000 to $964,000 as compared with $210,000 for 2013 (see Note 13 of the Notes to Consolidated Financial Statements, specifically, 90 days Convertible Notes).

Unrealized gain on derivative instruments, for 2014, was a gain of $14,000 as compared with a $59,000 gain recorded for 2013. The change reflects the movement in the Company’s common share price on the Company’s Class C Preferred Stock at the end of each period as well as the addition of a derivative instrument associated with the Tonaquint Convertible Note (see Note 13 for details).

In current and prior years, we generated significant federal and state income and alternative minimum tax ("AMT") losses, and these net operating losses ("NOLs") were carried forward for income tax purposes to be used against future taxable income. In the years ended December 31, 2014 and 2013, we incurred additional losses but did not record a benefit since the benefit was fully reserved (see below).

The NOLs are an asset to us if we can use them to offset or reduce future taxable income and therefore reduce the amount of both federal and state income taxes to be paid in future years. Previously, since we were incurring losses and could not be sure that we would have future taxable income to be able to use the benefit of our NOLs, we recorded a valuation allowance against the asset, reducing its book value to zero. In 2014 and 2013, the benefit from our net loss was offset completely by a valuation allowance recorded against the asset. We did not show a benefit for income taxes. We will reverse the valuation allowance or portions thereof when we determine it is more likely than not that our NOL’s will be utilized. We have substantial federal and state NOLs and to use against future regular taxable income. In addition, we can use our NOLs to reduce our future AMT liability. A portion of the remaining NOLs at December 31, 2014, approximately $4,196,000, was derived from income tax deductions related to the stock options exercises. The tax effect of these deductions will be credited against capital in excess of par value at the time they are utilized for book purposes, and not credited to income. We will never receive a benefit for these NOLs in our statement of operations.

Financial Condition and Liquidity

Our liquidity requirements arise principally from our working capital needs, including funds needed to find and market new or existing 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, cash flows from operations, if any, and any royalty legal awards, short term debt, and sales of common stock. At December 31, 2014, we had outstanding debt, in the form of promissory notes with a total principal amount of $3,217,000 and a carrying value of $3,079,000.

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

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

At December 31, 2014, cash was $6,000, as compared with $57,000 at December 31, 2013. Net cash used in operating activities was $(1,062,000) for 2014 as compared to $(1,566,000) for 2013, primarily reflecting the increase in the net loss in 2014 compared to 2013, offset by an increase in accounts payable, accrued expenses and other liabilities as the Company has deferred payment of certain operating expenses. There was limited investing activity in 2014 and 2013. Net cash provided by financing activities was $1,056,000 for 2014 as compared to $1,549,000 for 2013 primarily as a result of the Company's debt and equity financing activities in both years.

We currently have the benefit of using a portion of our accumulated 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 and thus able to utilize the benefit of the remaining NOLs before they expire.

At December 31, 2014, we had aggregate federal net operating loss carryforwards of approximately $42,281,000, which expire at various times in 2017 through 2034. A majority of our federal NOLs can be used to reduce taxable income used in calculating our AMT liability. We also have state net operating loss carry forwards of approximately $40,791,000 that expire through 2034.

A portion of the NOLs remaining at December 31, 2014, approximately $4,196,000, was derived from income tax deductions related to the exercise of stock options.

Authorized shares

As of June 23, 2015, in the event that all of the outstanding securities issued by the Company were converted into shares of common stock at one time (the "Fully Diluted Shares"), whether exercisable or otherwise, the number of Fully Diluted Shares of common stock would exceed the number of currently authorized shares of the Company. If such an event were to happen, the Company could either (a) immediately effectuate a reverse stock split, which was approved by the Board of Directors a majority of the Stockholders on August 14, 2014 or (b) call for a special general meeting of shareholders and request shareholder consent to increase the number of authorized shares of the Company. In either case, such actions would cure the common stock shortfall and return the Company to compliance with the common stock share count threshold as so delineated in the supporting financing agreements. Notwithstanding the foregoing, the Company currently expects to request shareholder consent at the next Annual General Meeting of Shareholders, to increase the number of authorized shares of the Company, and, if received in either of the aforementioned cases, shall file a Certificate of Amendment to the Certificate of Incorporation to increase the number of authorized shares to a value larger than the number of Fully Diluted Shares.

Going Concern

The Company has incurred operating losses since fiscal 2006 and has a working capital and shareholders' deficiency at December 31, 2014. During 2014 and 2013, we had a significant concentration of revenues from our Calmare® pain therapy medical device technology. We continue to seek revenue from new and existing technologies or products to mitigate the concentration of revenues, and replace revenues from expiring licenses on other technologies.

Although we have taken steps to significantly reduce operating expenses going forward, even at these reduced spending levels, should the anticipated increase in revenue from sales of Calmare® medical devices and other technologies not occur, the Company may not have sufficient cash flow to fund operations through 2015. 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. Failure to develop a recurring revenue stream sufficient to cover operating expenses would negatively affect the Company's financial position.

Funding and Capital Requirements

Debt Financing

Notes payable as of December 31, 2014 are as follows:

	Principal Amount	Carrying Value	Cash Interest Rate	Common Stock Conversion Price	Maturity Date
90 day Convertible Notes (Chairman of the Board)	$2,498,980	$2,498,980	6 %	$ 1.05	Various 2014
24 month Convertible Notes ($100,000 to Board member)	225,000	225,000	6 %	1.05	March 2014 – June 2014
10 day Note (Board member)	42,500	42,500	None	None	January 2015
Series A3 15% OID Convertible Notes and Warrants	11,765	11,765	None	0.25	January 2015
Series B OID Convertible Notes and Warrants	80,000	56,659	None	0.23	March 2017
1 Year 15% OID Convertible Notes and Warrants	358,824	244,565	None	0.20	Aug. 2015 – Nov. 2015
Notes Payable, gross	$3,217,069	3,079,469			
Less LPA [(1)] amount		(485,980)			
Notes Payable, net		$2,593,489			

(1) See note 11 to the Consolidated Financial Statements.

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	$1,188,900
2012	1,210,000
2011	100,000
Total	$2,498,980

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

Due to the Board's February 10, 2014 decision authorizing Management to nullify certain actions taken by prior management, the additional terms noted above were not approved and therefore, the additional interest for the extension of the Notes was not recorded. During 2014, 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 $510,000 during the three months ended September 30, 2014 and $602,000 for the year ended December 31, 2014.

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 11 of the consolidated financial statements. 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 June 23, 2015 the Company has not repaid the principal due on the March 2012 $100,000 note, the April 2012 $25,000 note or the June 2012 $100,000 note and is in default under the terms of the notes. There is also unpaid interest of $29,000 related to these notes as of December 31, 2014.

10 day Note

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

Series A 15% Original Issue Discount Convertible Notes and Warrants

During the quarter ended December 31, 2013, the Company did a private offering of two tranches of convertible notes and warrants, under which it issued $283,648 of convertible promissory notes for consideration of $241,100, the difference between the proceeds from the notes and the principal amount consists of $42,548 of original issue discount.

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 initial conversion prices ranging from $0.20 to $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 958,179 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 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 2014, certain holders of OID convertible notes and warrants delivered to the Company a notice of conversion related to the OID convertible notes. Additionally, the Company offered certain Noteholders an inducement to convert their notes to shares. The inducement, when offered, provided Noteholders a conversion price of $0.20. All other original terms, including the warrant terms, remained the same. Upon notice of conversion 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	$58,366
Accelerated interest expense	$35,109
Balance Sheet	
Shares issued	1,682,946
Principal amount of notes converted	$336,588

Series B Original Issue Discount Convertible Notes and Warrants

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

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

1 Year 15% OID Convertible Notes and Warrants

During the quarter ended December 31, 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.

Capital requirements

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

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

Contractual Obligations and Contingencies

At December 31, 2014, our contractual obligations were:

Contractual Obligations	Total	Within 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations, principally rent [1]	$150,000	$68,000	$82,000	$ -	$ -
Long term notes payable [2]	57,000	-	57,000	-	-

(1) The current lease expires February 2017.

(2) Only includes the long term portion of notes payable. See note 13 to the consolidated financial statements. Principal amount is $80,000 and is due in March 2017

Contingencies.

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. We expense such costs as incurred, and reduce expense if reimbursed from future fees and/or royalties. If the reimbursement belongs to our client, we record no revenue or expense.

As of December 31, 2014, CTI and its majority owned subsidiary, Vector Vision, Inc. ("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. CTI also is obligated to pay at the rate of 7.5% of its revenues, if any, from transferring rights to certain inventions supported by the grant funds. VVI is obligated to pay at rates of 1.5% of its net sales of supported products or 15% of its revenues from licensing supported products, if any.

Critical Accounting Estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires that we make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported amounts of revenue and expenses for the reporting period, and related disclosures. We base our estimates on information available at the time, and assumptions we believe are reasonable. By their nature, estimates, assumptions and judgments are subject to change at any time, and may depend on factors we cannot control. As a result, if future events differ from our estimates, assumptions and judgments, we may need to adjust or revise them in later periods.

We believe the following significant estimates, assumptions, and judgments we used in preparing our consolidated financial statements are critical to understanding our financial condition and operations.

Deferred tax assets. In assessing the realization of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As a result of uncertainty of achieving sufficient taxable income in the future, a full valuation allowance against its deferred tax asset has been recorded. If these estimates and assumptions change in the future, the Company may be required to reverse the valuation allowance against deferred tax assets, which could result in additional income tax income.

Share-based compensation. We account for share-based compensation on a fair value basis. Share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the service (vesting) period. Determining the fair value of share-based awards at the grant date requires judgment, including, estimating the expected life of the stock option, volatility, and the amount of share-based awards that can be expected to be forfeited. Our estimates were based on our historical experience with stock option awards.

Related Party Transactions

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

At December 31, 2014, $2,642,000 of the outstanding Notes were payable to related parties; $2,499,000 to the chairman of our Board, Peter Brennan, and $143,000 to another director, Stan Yarbro.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable for smaller reporting company.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Calmare Therapeutics Incorporated

Fairfield, CT

We have audited the accompanying consolidated balance sheets of Calmare Therapeutics Incorporated and Subsidiary as of December 31, 2014 and 2013 and the related consolidated statements of operations, changes in shareholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Calmare Therapeutics Incorporated and Subsidiary at December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that Calmare Therapeutics Incorporated and Subsidiary will continue as a going concern. As more fully described in Note 1, the Company has incurred operating losses since fiscal year 2006 and has a working capital and shareholders' deficiency at December 31, 2014. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Mayer Hoffman McCann CPAs

(The New York Practice of Mayer Hoffman McCann P.C.)
New York, New York

June 24, 2015

Page 29

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Consolidated Balance Sheets

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash	$5,745	$57,009
Receivables, net of allowance of $317,659 and $101,154 at December 31, 2014 and 2013	2,319	143,330
Inventory	4,118,220	4,278,220
Prepaid expenses and other current assets	253,102	65,167
Total current assets	4,379,386	4,543,726
Security deposits	15,000	15,000
Property and equipment, net	35,640	7,606
TOTAL ASSETS	$4,430,026	$4,566,332
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	$1,346,138	$692,251
Liabilities under claims purchase agreement	1,995,320	2,093,303
Accounts payable, GEOMC	4,182,380	4,183,535
Accrued expenses and other liabilities	1,590,182	582,987
Deferred revenue	19,686	6,400
Notes payable	2,536,830	2,488,691
Warrant liability	-	8,227
Series C convertible preferred stock liability	375,000	375,000
Series C convertible preferred stock derivative liability	66,177	80,408
Total current liabilities	12,111,713	10,510,802
Long term notes payable	56,659	-
Commitments and contingencies		
Shareholders' deficit:		
5% preferred stock, $25 par value, 35,920 shares authorized, 2,427 shares issued and outstanding	60,675	60,675
Series B preferred stock, $0.001 par value, 20,000 shares authorized, no shares issued and outstanding	-	-
Series C convertible preferred stock, $1,000 par value, 750 shares authorized, 375 shares issued and outstanding	-	-
Common stock, $.01 par value, 40,000,000 shares authorized, 25,908,978 shares issued and outstanding at December 31, 2014 and 19,952,907 shares issued and	259,089	199,529

outstanding at December 31, 2013		
Capital in excess of par value	47,634,857	46,077,394
Accumulated deficit	(55,692,967)	(52,282,068)
Total shareholders’ deficit	(7,738,346)	(5,944,470)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$4,430,026	$4,566,332

See accompanying notes

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Consolidated Statements of Operations

	Year ended December 31, 2014	Year ended December 31, 2013
Revenue		
Product sales	$ 1,045,080	$ 652,792
Cost of product sales	440,668	272,736
Gross profit from product sales	604,412	380,056
Other Revenue		
Retained royalties	27,782	37,007
Other income	90,776	82,069
Total other revenue	118,558	119,076
Operating expenses		
Selling expenses	213,419	159,245
Personnel and consulting expenses	1,368,299	1,100,041
General and administrative expenses	1,371,035	1,760,585
Total operating expenses	2,952,753	3,019,871
Operating loss	(2,229,783)	(2,520,739)
Other expense (income)		
Interest expense	964,070	209,953
Interest expense – accelerated upon conversion of OID notes	35,109	-
Loss on conversion of notes	63,867	-
Loss on settlement of note and warrant	132,301	-
Unrealized gain on derivative instruments	(14,231)	(58,538)

Total other expense		1,181,116		151,415	
Loss before income taxes		(3,410,899	)	(2,672,154	)
Provision (benefit) for income taxes		-		-	
Net loss	$	(3,410,899	)	$ (2,672,154	)
Basic and diluted loss per share	$	(0.15	)	$ (0.16	)
Basic and diluted weighted average number of common shares outstanding:		23,513,870		16,977,027	

See accompanying notes

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Deficit

	Preferred Stock		Common Stock				
	Shares outstanding	Amount	**Shares outstanding**	Amount	**Capital in excess of par value**	**Accumulated deficit**	**Total Shareholders' Deficit**
Balance – January 1, 2013	2,427	$60,675	15,237,304	$152,373	$ 45,367,796	$(49,609,914)	$ (4,029,070)
Net loss	-	-	-	-	-	(2,672,154)	(2,672,154)
Stock option compensation expense	-	-	-	-	116,365	-	116,365
Common shares issued for legal services	-	-	1,300,000	13,000	250,000	-	263,000
Common stock issued in accordance with escrow agreement	-	-	1,000,000	10,000	(10,000)	-	-
Common stock issued in accordance with liability purchase agreement	-	-	1,618,235	16,182	(16,182)	-	-
Common stock issued as part of equity purchase agreement and/or liability purchase agreement	-	-	710,000	7,100	215,400	-	222,500
Common stock issued to directors	-	-	87,368	874	33,228	-	34,102
Warrants and beneficial conversion feature on notes payable	-	-	-	-	120,787	-	120,787
Balance – December 31, 2013	2,427	60,675	19,952,907	199,529	46,077,394	(52,282,068)	(5,944,470)
Net loss	-	-	-	-	-	(3,410,899)	(3,410,899)
Common shares and warrants issued for	-	-	60,000	600	84,600	-	85,200

consulting services							
Common stock issued to directors	-	-	10,625	106	3,932	-	4,038
Stock option compensation expense	-	-	-	-	57,291	-	57,291
Common stock issued upon conversion of notes	-	-	1,732,946	17,329	394,280	-	411,609
Private offering of common stock and warrants	-	-	4,152,500	41,525	788,975	-	830,500
Warrant and beneficial conversion feature on notes payable	-	-	-	-	121,741	-	121,741
Liabilities settled under Liability Purchase Agreement	-	-	-	-	106,644	-	106,644
Balance – December 31, 2014	2,427	$60,675	25,908,978	$259,089	$ 47,634,857	$(55,692,967)	$ (7,738,346)

See accompanying notes

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year ended December 31, 2014	Year ended December 31, 2013
Cash flows from operating activities:		
Net loss	$ (3,410,899)	$ (2,672,154)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	17,547	11,147
Stock option compensation expense	57,291	116,365
Share-based compensation – common stock	4,038	7,655
Common stock and warrants issued to consultants	85,200	-
Bad debt expense	216,505	8,588
Unrealized gain on derivative instrument	(14,231)	(58,538)
Debt discount amortization	217,323	63,480
Noncash finance charges	17,591	216,650
Loss on conversion of notes	63,867	-
Loss on settlement of note and warrant	132,301	-
Changes in assets and liabilities:		
Receivables	(75,494)	64,447
Prepaid expenses and other current assets	(187,935)	276,560
Inventory	160,000	90,000
Accounts payable, accrued expenses and other liabilities	1,641,927	312,587
Deferred revenue	13,286	(3,200)
Net cash used in operating activities	(1,061,683)	(1,566,413)
Cash flows from investing activities:		
Purchases of property and equipment	(45,581)	-
Cash used in investing activities	(45,581)	-
Cash flows from financing activities:		
Proceeds from notes payable	467,500	1,549,100
Repayment of note and warrant settlement	(242,000)	-
Proceeds from common stock and warrants	830,500	-
Net cash provided by financing activities	1,056,000	1,549,100
Net increase (decrease) in cash	(51,264)	(17,313)
Cash at beginning of year	57,009	74,322
Cash at end of year	$ 5,745	$ 57,009
Supplemental Cash Flow Information		
Cash Paid for interest	$ -	$ 15,304

See accompanying notes

Supplemental disclosure of non-cash transactions:

During 2014, the Company issued 1,732,946 shares of common stock upon conversion of notes of $411,609(see Note 13).

During 2014, the Company issued 60,000 shares of its common stock for consulting services at $0.17 per share.

During 2014, the Company issued 333,333 stock warrants for consulting services valued at $75,000.

During 2014, the Company allocated $121,741 of convertible note proceeds for the fair value of warrants and beneficial conversion feature to additional paid-in capital.

During December 2013, the Company issued 66,118 shares of its common stock to directors at $0.40 per share to settle $26,447 of accrued liabilities.

During December 2013, Southridge converted its $65,000 note for 260,000 shares of the Company’s common stock (see Note 13).

During December 2013, the Company issued 450,000 shares of its common stock valued at $157,500 in connection with the Equity Purchase Agreement and Liability Purchase Agreement (see Notes 5 and 11).

During November and December 2013, the Company allocated $120,787 of convertible note proceeds for the fair value of warrants and beneficial conversion feature to additional paid-in capital.

During September 2013, the Company issued 1,000,000 of its common stock $0.18 per share for legal services to its former legal team Cutler Law Group.

During July 2013, the Company issued 200,000 shares of its common stock for legal services at $0.20 per share.

In September 2013, the Company issued 1,618,235 shares of the Company's common stock to ASC Recap. During September and October 2013, ASC Recap sold the Company's common stock and during the three months ended March 31, 2014, paid creditors approximately $80,000 from the proceeds and retained a service fee of approximately $27,000 (see Note 11).

During July 2013, the Company allocated $45,100 of proceeds from the Tonaquint, Inc. note payable (see Note 13) to a warrant and conversion feature derivative liability.

During 2013, the Company transferred a rental asset with a net book value ("NBV") of approximately $8,000 to inventory.

During 2013, the Company issued 1,000,000 shares of its common stock into escrow, pending the completion of potential financing with a European investment group.

During March 2013, the Company issued 100,000 shares of its common stock at $0.43 per share for legal services.

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Notes to Consolidated Financial Statements

1. Business AND BASIS OF PRESENTATION

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

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

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

The Company has incurred operating losses since fiscal 2006 and has a working capital and shareholders’ deficiency at December 31, 2014. During the years ended December 31, 2014 and December 31, 2013, we had a significant concentration of revenues from our pain therapy medical device technology. We continue to seek revenue from new technologies or products to mitigate the concentration of revenues, and replace revenues from expiring licenses. At current reduced spending levels, the Company may not have sufficient cash flow to fund operations through 2015. 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 other recurring revenue streams sufficient to cover operating costs. If necessary, we will meet anticipated operating cash requirements by further reducing costs, issuing debt or equity, and/or pursuing sales of certain assets and technologies while we pursue licensing and distribution opportunities for our remaining portfolio of technologies. The Company does not have any significant capital requirements in the budget going forward. 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 would negatively affect the Company’s financial position.

Our liquidity requirements arise principally from our working capital needs, including funds needed to find 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, and cash flows from operations, if any, including royalty legal awards. At December 31, 2014, we had outstanding debt, in the form of promissory notes with a total principal amount of $3,217,000 and a carrying value of $3,079,000.

The Company acquired the exclusive, worldwide rights to the *Scrambler Therapy*® technology in 2007. The Company's original 2007 agreement with Giuseppe Marineo (the "Scrambler Therapy Agreement"), an inventor of *Scrambler Therapy* technology ("ST"), and Delta Research and Development ("Delta"), authorized CTI to manufacture and sell worldwide the device developed from the patented ("ST"). The original agreement was amended in 2011 to provide the Company with exclusive rights to the ST through March 31, 2016. In July 2012, the Company attempted to negotiate a five-year extension to the agreement with Marineo and Delta (the "2012 Amendment"). However, the Company believes that the 2012 Amendment is neither valid nor enforceable as it was never duly signed or authorized and subsequently deemed null and void (see Footnote 16. COMMITMENTS AND CONTINGENCIES, *CTI's Distribution Rights, Marineo and Delta*). ST is patented in Italy and in the U.S. Applications for patents have been filed internationally as well and are pending approval. The Calmare Device has CE Mark certification from the European Union as well as U.S. FDA 510(k) clearance. CTI's partner, GEOMC Co., Ltd. ("GEOMC") of Korea, is manufacturing the product commercially under a ten (10) year agreement through 2017. Sales of these devices are expected to provide a significant proportion of the Company's revenue through the term of the agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires that we make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. Actual results could differ significantly from our estimates.

Revenue Recognition

We earn revenue in two ways: retained royalties from licensing our clients' and our own technologies to our customer licensees, and sales of finished products. We record revenue when the terms of the sales arrangement are accepted by all parties including a fee that is fixed and determinable, delivery has occurred and our customer has taken title, and collectability is reasonably assured, net of sales tax.

We are the primary obligor, responsible for delivering devices as well as for training our customers in the proper use of the 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.

Revenue from foreign sources was 13% of total revenue in 2014 and not significant compared to total revenue in 2013.

Retained royalties or distribution fees earned are of the following types:

Non-refundable, upfront license fee – We record our share of non-refundable, upfront license fees upon execution of a license, sublicense or distribution agreement. Once delivery is complete, and the fee is collected, we have no continuing obligation. No upfront fees were received during the years ended December 31, 2014 or 2013.

Royalty or per unit fees – The royalty or per unit rate is fixed in the license or distribution agreement, with the amount earned contingent upon our customer's usage of our technology or sale of our product. Some agreements may contain stipulated minimum monthly or annual fee payments to CTI. We determine the amount of revenue to record when we can estimate the amount earned for a period. We receive payment or royalty reports on a monthly, quarterly or semi-annual basis indicating usage or sales of licensed technologies or products to determine the revenue earned in the period. Revenue may fluctuate from one quarter to another based on receipt of reports from customers.

Royalty legal awards – We earn non-recurring revenues from royalty legal awards, principally from patent infringement actions filed on behalf of our clients and/or us. Patent infringement litigation cases generally occur when a customer or another party ignores our patent rights, or challenges the legal standing of our clients' or our technology rights. These cases, even if settled out of court, may take several years to complete, and the expenses may be borne by our clients, by us, or shared. We share royalty legal awards in accordance with the agreement we have with our clients, usually after reimbursing each party for their related legal expenses. We recognize royalty legal award revenue when our rights to litigation awards are final and unappealable and we have assurance of collecting those awards, or when we have collected litigation awards in cash from the adverse party, or by sale of our rights to another party without recourse, and we have no obligation or are very unlikely to be obligated to repay such collected amounts. Proceeds from cases settled out of court are recorded as retained royalties.

Legal awards in patent infringement cases usually include accrued interest through the date of payment, as determined by the court. The court awards interest for unpaid earned income. Interest may also be included in other settlements with customers. Interest included in an award or settlement is generally recorded as interest income when received.

Unless otherwise specified, we record all other revenue, as earned.

Concentration of Revenues

Total revenue consists of revenue from product sales, retained royalties, and other income. During the year ended December 31, 2014, we derived approximately $1,045,000 or 90% of total revenue from sales of our Calmare pain therapy medical device technology. An additional 4% of revenue derived indirectly from that technology through sales of supplies and training, rental payments and the sale of rental assets.

During the year ended December 31, 2013, we derived approximately $653,000 or 85% of total revenue from sales of our Calmare pain therapy medical device technology. An additional 4% of revenue derived indirectly from that technology through sales of supplies and training, rental payments and the sale of rental assets.

Of these amounts $150,000 and $160,000 or 14% and 25% of total revenue from sales of our Calmare pain therapy medical device technology came from one customer in 2014 and 2013, respectively.

Expenses

We recognize expenses related to evaluating, patenting and licensing inventions, and enforcing intellectual property rights in the period incurred.

Cost of product sales includes contractual payments to inventor and manufacturer relating to our Calmare pain therapy medical device. Expenses associated with shipping devices are also included in cost of product sales.

Selling expenses include commission expenses related to sales of inventory (Calmare devices) technologies, domestic and foreign patent legal filing, prosecution and maintenance expenses, net of reimbursements, royalty audits, and other direct costs.

Personnel and consulting expenses include employee salaries and benefits, marketing and consulting expenses related to technologies and specific revenue initiatives, and other direct costs.

General and administrative expenses include directors' fees and expenses, public company related expenses, professional services, including financing, audit and legal services, rent and other general business and operating expenses.

Fair Value of Financial Instruments

The Company believes the carrying amounts of cash, accounts receivable, deferred revenue, preferred stock liability and notes payable approximate fair value due to their short-term maturity.

Inventory

Inventory consists of finished product of our pain therapy device. Inventory is stated at lower of cost (first in, first out) or market.

Property and Equipment

Property and equipment are carried at cost net of accumulated depreciation. Expenditures for normal maintenance and repair are charged to expense as incurred. The costs of depreciable assets are charged to operations on a straight-line basis over their estimated useful lives, three to five years for equipment, or the terms of the related lease for leasehold improvements. The cost and related accumulated depreciation or amortization of property and equipment are removed from the accounts upon retirement or other disposition, and any resulting gain or loss is reflected in earnings.

Impairment of Long-lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the estimated fair value is less than the carrying amount of the asset, we record an impairment loss. If a quoted market price is available for the asset or a similar asset, we use it to determine estimated fair value. We re-evaluate the remaining useful life of the asset and adjust the useful life accordingly. There were no impairment indicators identified during the years ended December 31, 2014 and 2013.

Income Taxes

Income taxes are accounted for under an asset and a liability approach that requires recognition of deferred income tax assets and liabilities for the expected future consequences of events that have been recognized in the Company's consolidated financial statements and income tax returns. The Company provides a valuation allowance for deferred income tax assets when it is considered more likely than not that all or a portion of such deferred income tax assets will not be realized.

Net Income (Loss) Per Share

We calculate basic net income (loss) per share based on the weighted average number of common shares outstanding during the period without giving any effect to potentially dilutive securities. Net income (loss) per share, assuming dilution, is calculated giving effect to all potentially dilutive securities outstanding during the period.

Share-Based Compensation

The Company accounts for its share-based compensation in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 718 – "Compensation – Stock Compensation." Accordingly, the Company recognizes compensation expense equal to the fair value of the stock awards at the time of the grant over the requisite service period.

Our accounting for share-based compensation has resulted in our recognizing non-cash compensation expense related to stock options granted to employees, which is included in personnel and consulting expenses, and stock options granted to our directors, which is included in general and administrative expenses.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue From Contracts With Customers*, 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, 2016; early adoption is not permitted. 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.

3. INCOME TAXES

In current and prior years, we generated significant federal and state income tax and alternative minimum tax losses, and these net operating losses ("NOLs") were carried forward for income tax purposes to be used against future taxable income.

A reconciliation of our effective income tax rate compared to the U.S. federal statutory rate is as follows:

	Year ended December 31, 2014		Year ended December 31, 2013	
Provision (benefit) at U.S. federal statutory rate	(35.0	)%	(35.0	)%
State provision (benefit), net of U.S. federal tax	(4.9	)	(4.9	)
Permanent differences	0.9		(0.3	)
Other items	2.5		5.0	
Deferred tax valuation allowance	(36.5	)	(35.2	)
Effective income tax rate	0.0	%	0.0	%

Net deferred tax assets consist of the following:

	December 31, 2014	December 31, 2013
Net federal and state operating loss carryforwards	$ 16,912,223	$ 15,748,253
Impairment of investments	531,470	531,470
Other, net	767,266	687,426
Deferred tax assets	18,210,959	16,967,149
Valuation allowance	(18,210,959)	(16,967,149)
Net deferred tax assets	$ -	$ -

At December 31, 2014, we had aggregate federal net operating loss carryforwards of approximately $42,281,000, which expire at various times from 2017 through 2034. A majority of our federal NOLs can be used to reduce taxable income used in calculating our alternative minimum tax liability. We also have state net operating loss carryforwards of approximately $40,791,000 that expire at various times through 2034.

Approximately $4,196,000 of our NOL carryforward remaining at December 31, 2014 was derived from income tax deductions related to the exercise of stock options. The tax effect of these deductions will be credited against capital in excess of par value at the time they are utilized for book purposes, and not credited to income. We will never receive a benefit for these NOLs in our statement of operations.

Changes in the valuation allowance were as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Balance, beginning of year	$ 16,967,149	$ 15,997,757
Change in temporary differences	79,840	6,789
Change in net operating and capital losses	1,163,970	962,603
Balance, end of year	$ 18,210,959	$ 16,967,149

Our ability to derive future tax benefits from the net deferred tax assets is uncertain and therefore we continue to provide a full valuation allowance against the assets, reducing the carrying value to zero. We will reverse the valuation allowance if future financial results are sufficient to support a carrying value for the deferred tax assets.

At December 31, 2014 and December 31, 2013, we had no uncertain tax positions.

We include interest and penalties on the underpayment of income taxes in income tax expense.

We file income tax returns in the United States and Connecticut. The Internal Revenue Service has completed audits for the periods through the fiscal year ended July 31, 2005. Our open tax years for review are fiscal years ended December 31, 2011 through year ended December 31, 2014. The Company's returns filed with Connecticut are subject to audit as determined by the statute of limitations.

4. 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:

	Year ended December 31, 2014	Year ended December 31, 2013
Denominator for basic net loss per share, weighted average shares outstanding	23,513,870	16,977,027
Dilutive effect of common stock options	**N/A**	N/A
Dilutive effect of Series C convertible preferred stock and convertible debt and warrants	**N/A**	N/A
Denominator for net loss per share, assuming dilution	23,513,870	16,977,027

Due to the net loss incurred for the years ended December 31, 2014, and December 31, 2013, 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:

	December 31, 2014	December 31, 2013
Exercise of common stock options	1,692,500	1,372,000
Exercise of common stock warrants	4,450,536	1,313,679
Conversion of Series C convertible preferred stock	2,828,054	1,423,150
Conversion of convertible debt	4,783,272	4,321,385
Total	13,754,362	8,430,214

5. SHAREHOLDERS' INTEREST

Common Stock

During 2013, the Company entered into an Equity Purchase Agreement ("EPA") with Southridge Partners II, L.P. ("Southridge"). Under the terms of the EPA, which was filed with the SEC on February 26, 2013, Southridge will

purchase, at the Company's election, up to $10,000,000 of the Company's registered common stock (the "Shares"). During the two year term of the EPA, the Company may at any time in its sole discretion deliver a "put notice" to Southridge thereby requiring Southridge to purchase a certain dollar amount of the Shares. Simultaneous with the delivery of such Shares, Southridge shall deliver payment for the Shares. Subject to certain restrictions, the purchase price for the Shares shall be equal to ninety percent of the lowest closing bid price for the Company's common stock during the ten-day trading period immediately after the Shares specified in the Put Notice are delivered to Southridge.

The number of Shares sold to Southridge shall not exceed the number of such shares that, when aggregated with all other shares of common stock of the Company then beneficially owned by Southridge, would result in Southridge owning more than 9.99% of all of the Company's common stock then outstanding. Additionally, Southridge may not execute any short sales of the Company's common stock.

Under the terms of the EPA, the Company had issued a convertible promissory note in the amount of $65,000 to Southridge which, during 2013 Southridge converted to 260,000 shares of common stock. In addition, during 2013, the Company negotiated a liabilities purchase agreement (“LPA”) with Southridge (see Note 11).

Under the terms of the LPA, the Company issued 200,000 shares of its common stock at $0.35, or $70,000, and a convertible note in the amount of $12,000 Southridge as a fee.

Additionally, under the terms of the EPA and LPA, the Company issued 250,000 shares of its common stock at $0.35 or $87,500, to Southridge for expenses associated with the EPA and LPA.

During 2013 the Company issued 1,000,000 shares of its common stock into escrow, pending the completion of potential financing with a European investment group.

On August 14, 2014, the shareholders approved an amendment to the Company's certificate of incorporation to effect up to a one-for-ten reverse stock split (the "Reverse Stock Split") of the Company's issued and outstanding common stock. The Board of Directors, in its sole discretion, has discretion to implement the Reverse Stock Split. As of June 23, 2015, the Board of Directors has not implemented the Reverse Stock Split.

During 2014, the Company did a series of private offerings of its common stock and warrants, for consideration of $830,500. 4,152,500 shares of common stock were issued at a per share price of $0.20. The common stock holders were also issued warrants to purchase 2,076,250 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 2014, the Company issued 60,000 shares to a consulting firm for marketing services performed and recorded consulting expense of $10,200 for the fair value of the stock.

During 2014, the Company issued 333,333 stock warrants with a fair value of $75,000 for consulting services. The Company is amortizing the $75,000 over the service period and recorded $37,500 of expense in 2014.

The Company issued 10,625 and 21,250 shares of its common stock to non-employee directors under its Director Compensation Plan in 2014 and 2013, respectively. The Company recorded expense of $4,038 and $7,655 for director stock compensation expense in 2014 and 2013, respectively.

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.

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 December 15, 2010 the Company issued a $400,000 promissory note. The promissory note was scheduled to mature on December 31, 2012 with an annual interest rate of 5%.

On December 15, 2010, the Company's Board of Directors authorized the issuance of 750 shares of Series C Convertible Preferred Stock ($1,000 par value) with a 5% cumulative dividend to William R. Waters, Ltd. of Canada. On December 30, 2010, 750 shares were issued. The Company converted the above $400,000 promissory note into 400 shares and received cash of $350,000 for the remaining 350 shares.

Effective June 16, 2011, William R. Waters, Ltd. of Canada converted one half of its Series C Convertible Preferred Stock, or 375 shares, to 315,126 shares of common stock.

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

a) *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 December 31, 2014 dividends declared were $84,450, of which $18,750 were declared during the year ended December 31, 2014 and $65,702 have not been paid and are shown in accrued and other liabilities at December 31, 2014.

Page 42

b) *Voting rights* – Holders of these shares of Series C Convertible Preferred Stock shall have voting rights equivalent to 1,000 votes per $1,000 par value Series C Convertible Preferred share voted together with the shares of Common Stock

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

d) *Redemption rights* – The redemption rights were associated with the $750,000 that had been held in escrow by the Company in the event that the funds were released and returned to CTI. However, the funds were withdrawn from escrow and paid out in accordance with the settlement agreement. Therefore the redemption rights no longer apply to the remaining Series C Convertible Preferred Stock.

e) *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 (1) the closing market price at the date of notice of conversion or (2) the mid-point of the last bid price 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.

On the date of conversion of the 375 shares of Series C Convertible Preferred Stock the Company calculated the value of the derivative liability to be $81,933. Upon conversion, the $81,933 derivative liability was reclassified to equity.

The Company recorded a convertible preferred stock derivative liability of $66,177 and $80,408, associated with the 375 shares of Series C Convertible Preferred Stock outstanding at December 31, 2014 and, 2013, respectively.

The Company has classified the Series C Convertible Preferred Stock as a liability at December 31, 2014 and 2013 because the variable conversion feature may require the Company to settle the conversion in a variable number of its common shares.

6. RECEIVABLES

Receivables consist of the following:

	December 31, 2014	December 31, 2013
Calmare device sales receivable, net of allowance of $209,533 and $0 at December 31, 2014 and 2013, respectively	$ -	$ 132,850
Royalties, net of allowance of $101,154 at December 31, 2014 and 2013	-	10,086
Other, net of allowance of $6,972 and $0 at December 31, 2014 and 2013, respectively	2,319	394
Total	$ 2,319	$ 143,330

Page 44

7. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following:

	December 31, 2014	December 31, 2013
Property and equipment, gross	$ 215,491	$ 177,537
Accumulated depreciation and amortization	(179,851)	(169,931)
Property and equipment, net	$ 35,640	$ 7,606

Depreciation and amortization expense was $17,547 and $11,147 for the years ended December 31, 2014 and 2013, respectively.

8. AVAILABLE-FOR-SALE AND EQUITY SECURITIES

	December 31, 2014	December 31, 2013	Number of shares	Type
Security Innovation, Inc.	—	—	223,317	Common stock
Xion Pharmaceutical Corporation	—	—	60	Common stock

In prior years, we acquired 3,129,509 shares of NTRU Cryptosystems, Inc. ("NTRU") common stock, and certain preferred stock that later was redeemed, in exchange for cash and a reduction in our future royalty rate on sales of NTRU's products. NTRU was a privately held company that sold encryption software for security purposes, principally in wireless markets. There was no public market for NTRU shares. In 2003, we wrote down the value of NTRU to $0, but we continued to own the shares. On July 22, 2009, all NTRU assets were acquired by Security Innovation, an independent provider of secure software located in Wilmington, MA. We received 223,317 shares of stock in the privately held Security Innovation for our shares of NTRU.

In September 2009 we announced the formation of a joint venture with Xion Corporation for the commercialization of our patented melanocortin analogues for treating sexual dysfunction and obesity. We received 60 shares of privately held Xion Pharmaceutical Corporation common stock in June 2010. CTI currently owns 30% of the outstanding stock of Xion Pharmaceutical Corporation. The Company has been notified that Xion Pharmaceutical Corporation will be dissolved in 2015 with no financial impact to the Company.

9. 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 5) 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 $66,000 and $80,000 at December 31, 2014 and December 31, 2013, respectively, in Level 2 of the fair value hierarchy.

The warrants issued in connection with the Tonaquint Note (the "Tonaquint Warrants," see Note 13) were measured at fair value and liability-classified because the Tonaquint Warrants contain "down-round" protection and therefore did not meet the scope exception under FASB ASC 815, Derivatives and Hedging ("ASC 815"). Since "down-round" protection is not an input to the fair value of the warrants, the warrants could not be considered indexed to the Company's own stock which is a requirement for the scope exception as outlined under ASC 815. The Company valued the warrants

at $8,000 at December 31, 2013, and $26,076 upon issuance July 16, 2013, in Level 3 of the fair value hierarchy. During the first quarter of 2014 the Company executed a debt settlement agreement with Tonaquint related to the note and warrant (see Note 13).

Similarly, the conversion feature of the Tonaquint Note (Note 13) also contained “down-round” protection and therefore did not meet the scope exception under FASB ASC 815. The Company classified the derivative liability of $0 at December 31, 2013, and $19,024 upon issuance at July 16, 2013, in Level 3 of the fair value hierarchy. During the first quarter of 2014 the Company executed a debt settlement agreement with Tonaquint related to the note and warrant (see Note 13).

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.

10. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	December 31, 2014	December 31, 2013
Prepaid insurance	**$ 71,651**	$ 16,802
Clinical trial	**109,119**	-
Other	**72,332**	48,365
Prepaid expenses and other current assets	**$ 253,102**	$ 65,167

11. LIABILITIES ASSIGNED TO LIABILITY PURCHASE AGREEMENT

During the third quarter of 2013, the Company negotiated a LPA with Southridge. The LPA takes advantage of a provision in the Securities Act of 1933, Section 3(a)(10), that allows the exchange of claims, securities, or property for stock when the arrangement is approved for fairness by a court proceeding. The process, approved by the court in August 2013, has the potential to eliminate nearly $2.1 million of our financial obligations to existing creditors who agreed to participate and executed claims purchase agreements with Southridge's affiliate ASC Recap accounting for $2,093,303 of existing payables, accrued expenses and other current liabilities, and notes payable. The process began with the issuance in September 2013 of 1,618,235 shares of the Company's common stock to ASC Recap. During September and October 2013, ASC Recap sold the Company's common stock and during the three months ended March 31, 2014 paid creditors approximately $80,000 from the proceeds and retained a service fee of approximately $27,000. During 2014, the Company also made cash payments of $18,000 for accrued expenses previously included in the LPA amount. As of June 23, 2015, no further shares of the Company's common stock had been issued to ASC Recap to settle creditors' balances.

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

12. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	December 31, 2014	December 31, 2013
Royalties payable	**$ 314,787**	$ 127,708
Accrued audit fee	**-**	82,141
Commissions payable	**15,900**	21,975
Accrued interest payable	**987,659**	216,518
Other	**271,836**	134,645
Accrued expenses and other liabilities, net	**$ 1,590,182**	$ 582,987

Excluded above is approximately $217,000 and $244,000 of accrued expenses and other liabilities at December 31, 2014 and 2013, respectively, that fall under the LPA with ASC Recap, and are expected to be repaid using the process as described in Note 11. 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.

13. NOTES PAYABLE

Notes payable consist of the following:

	December 31, 2014	December 31, 2013
90 day Convertible Notes (Chairman of the Board)	**$ 2,498,980**	$ 2,518,000
24 month Convertible Notes ($100,000 to Board member)	**225,000**	225,000
10 day Note (Board member)	**42,500**	-
Tonaquint 9% OID Convertible Notes and Warrants	**-**	87,705
Southridge Convertible Note	**-**	12,000
Series A1 15% OID Convertible Notes and Warrants	**-**	81,415
Series A2 15% OID Convertible Notes and Warrants	**-**	69,571
Series A3 15% OID Convertible Notes and Warrants	**11,765**	-
Series B OID Convertible Notes and Warrants	**56,659**	-
1 Year 15% OID Convertible Notes and Warrants	**244,565**	-
Notes Payable, gross	**3,079,469**	2,933,691
Less LPA amount	**(485,980)**	(505,000)
Notes Payable, net	**$ 2,593,489**	$ 2,488,691

Details of notes payable as of December 31, 2014 are as follows:

	Principal Amount	Carrying Value	Cash Interest Rate	Common Stock Conversion Price	Maturity Date
90 day Convertible Notes (Chairman of the Board)	$2,498,980	$2,498,980	6 %	$ 1.05	Various 2014
24 month Convertible Notes ($100,000 to Board member)	225,000	225,000	6 %	1.05	March 2014 – June 2014
10 day Note (Board member)	42,500	42,500	None	None	January 2015
Series A3 15% OID Convertible Notes and Warrants	11,765	11,765	None	0.25	January 2015
Series B OID Convertible Notes and Warrants	80,000	56,659	None	0.23	March 2017
1 Year 15% OID Convertible Notes and Warrants	358,824	244,565	None	0.20	Aug. 2015 – Nov. 2015
Notes Payable, gross	$3,217,069	3,079,469			
Less LPA amount		(485,980)			
Notes Payable, net		$2,593,489			

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	$1,188,900
2012	1,210,000
2011	100,000
Total	$2,498,980

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

Due to the Board's February 10, 2014 decision authorizing Management to nullify certain actions taken by prior management, the additional terms noted above were not approved and therefore, the additional interest for the extension of the Notes was not recorded. During 2014, 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 $510,000 during the three months ended September 30, 2014 and $602,000 for the year ended December 31, 2014.

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 11. 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 June 23, 2015 the Company has not repaid the principal due on the March 2012 $100,000 note, the April 2012 $25,000 note or the June 2012 $100,000 note and is in default under the terms of the notes. There is also unpaid interest of $29,000 related to these notes.

10 day Note

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

Tonaquint 9% Original Issue Discount Convertible Notes and Warrants

During the quarter ended September 30, 2013, the Company entered into a securities purchase agreement with Tonaquint, Inc., under which it was issued a $112,500 convertible promissory note in consideration for $100,000, the difference between the proceeds from the Note and the principal amount consisted of a $10,000 original issue discount and a carried transaction expense of $2,500. The original issue discount was being amortized over the life of the note. The note was convertible at an initial conversion price of $0.30 per share at any time, and contained a “down-round protection” feature that requires the valuation of a derivative liability associated with the note. The note bore interest at 7% and was due in May 2014. Tonaquint was also issued a market-related warrant for $112,500 in shares of common stock with a “cashless” exercise feature. The warrant had a $0.35 exercise price, a 5-year term and included a “down-round protection” feature that required it to be classified as a liability rather than as equity (see Note 9).

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