CALMARE THERAPEUTICS Inc
Form 10-Q
May 19, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from ____________________ to ____________________

Commission file number 001-08696

CALMARE THERAPEUTICS INCORPORATED

(Exact name of registrant as specified in its charter)

www.calmaretherapeutics.com

Delaware	36-2664428
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
1375 Kings Highway East, Suite 400 Fairfield, Connecticut	06824
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

Yes x No ¨

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

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

The number of shares of the registrant's common stock outstanding as of March 31, 2016 was 28,525,888 shares.

CALMARE THERAPEUTICS INCORPORATED

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Interim Financial Statements

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Condensed Consolidated Balance Sheets

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Current Assets:		
Cash	$125,931	$49,801
Receivables, net of allowance of $317,659 at March 31, 2016 and December 31, 2015	74,327	33,081
Inventory	4,018,220	4,028,220
Prepaid expenses and other current assets	39,537	58,034
Total current assets	4,258,015	4,169,136
Property and equipment, net	19,594	23,726
Security deposits	15,000	15,000
TOTAL ASSETS	$4,292,609	$4,207,862
Liabilities and Shareholders' Deficit		
Current Liabilities:		
Accounts payable	$1,929,063	$1,895,382
Liabilities under claims purchase agreement	1,995,320	1,995,320
Accounts payable, GEOMC	4,182,380	4,182,380
Accrued expenses and other liabilities	2,423,262	2,248,024
Notes payable	4,381,458	3,785,063
Deferred revenue	6,400	6,400
Series C convertible preferred stock derivative liability	66,177	66,177
Series C convertible preferred stock liability	375,000	375,000
Total current liabilities	15,359,060	14,553,746
Note payable – long-term	70,734	67,919
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, 100,000,000 shares authorized, 28,525,888 shares issued and outstanding at March 31, 2016 and 28,515,888 shares issued and outstanding at December 31, 2015	285,258	285,158
Capital in excess of par value	48,765,848	48,611,413
Accumulated deficit	(60,248,966)	(59,371,049)
Total shareholders’ deficit	(11,137,185)	(10,413,803)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$4,292,609	$4,207,862

See accompanying notes

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PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Condensed Consolidated Statements of Operations

(Unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Revenue		
Product sales	$ 56,250	$ 7,950
Cost of product sales	24,446	2,297
Gross profit from product sales	31,804	5,653
Other Revenue		
Retained royalties	69	2,392
Other income	13,287	8,507
Total other revenue	13,356	10,899
Operating expenses		
Selling expenses	6,557	1,236
Personnel and consulting expenses	449,056	507,478
General and administrative expenses	174,898	323,639
Total operating expenses	630,511	832,353
Operating loss	(585,351)	(815,801)
Other expense		
Interest expense	292,566	185,862
Loss on conversion of notes	-	2,588
Total other expense	292,566	188,450
Loss before income taxes	(877,917)	(1,004,251)

Provision (benefit) for income taxes		-			-	
Net loss	$	(877,917	)	$	(1,004,251	)
Basic and diluted loss per share	$	(0.03	)	$	(0.04	)
Basic and diluted weighted average number of common shares outstanding:		28,525,558			26,767,978	

See accompanying notes

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PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Condensed Consolidated Statement of Changes in Shareholders' Deficit

For the Three Months Ended March 31, 2016

(Unaudited)

	Preferred Stock		Common Stock		Capital		Total
	Shares outstanding	Amount	Shares outstanding	Amount	In excess of par value	Accumulated deficit	shareholders' deficit
Balance January 1, 2016	2,427	$60,675	28,515,888	$285,158	$48,611,413	$(59,371,049)	$(10,413,803)
Net loss	-	-	-	-	-	(877,917)	(877,917)
Common stock issued to directors	-	-	10,000	100	1,800	-	1,900
Stock option compensation expense	-	-	-	-	7,180	-	7,180
Warrant and beneficial conversion feature on notes payable	-	-	-	-	145,455	-	145,455
Balance March 31, 2016	2,427	$60,675	28,525,888	$285,258	$48,765,848	$(60,248,966)	$(11,137,185)

See accompanying notes

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PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended March 31, 2016	Three months ended March 31, 2015
Cash flows from operating activities:		
Net loss	$ (877,917)	$ (1,004,251)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,132	4,459
Stock option compensation expense	7,180	16,069
Share-based compensation – common stock	1,900	2,125
Common stock and warrants issued to consultants	-	182,600
Debt discount amortization	144,665	49,720
Loss on conversion of notes	-	2,588
Changes in assets and liabilities:		
Receivables	(41,246)	(1,072)
Prepaid expenses and other current assets	18,497	73,466
Inventory	10,000	-
Accounts payable, accrued expenses and other liabilities	208,919	385,457
Deferred revenue	-	(5,905)
Net cash used in operating activities	(523,870)	(294,744)
Cash flows from financing activities:		
Proceeds from notes payable	600,000	257,000
Repayment of note and warrant settlement	-	(42,500)
Proceeds from common stock and warrants	-	75,000
Net cash provided by financing activities	600,000	289,500
Net increase (decrease) in cash	76,130	(5,244)
Cash at beginning of period	49,801	5,742
Cash at end of period	$ 125,931	$ 501

Supplemental disclosure of non-cash transactions:

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

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

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

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

During the quarter ended March 31, 2016, the Company allocated $145,455 of convertible note proceeds for the fair value of warrants and beneficial conversion feature to additional paid-in capital.

See accompanying notes

PART I. FINANCIAL INFORMATION (Continued)

CALMARE THERAPEUTICS INCORPORATED AND SUBSIDIARY

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

1. BASIS OF PRESENTATION

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

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

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiary, Vector Vision, Inc. Inter-company accounts and transactions have been eliminated in consolidation.

We believe we have made all adjustments necessary, consisting only of normal recurring adjustments, to present the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the U.S. The results for the three ended March 31, 2016 are not necessarily indicative of the results that can be expected for the full year ending December 31, 2016.

The interim unaudited condensed consolidated financial statements and notes thereto, should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission (“SEC”) on April 14, 2016.

During the three months ended March 31, 2016, we had a significant concentration of revenues from the Calmare® Device. The percentages of gross revenue attributed to sales and rentals of Calmare Devices, in the three months ended March 31, 2016 and March 31, 2015, were 89% and 74%, respectively. Additionally, the percentage of gross revenue attributed to other Calmare Device related sales of equipment and training, in the three months ended March 31, 2016 and March 31, 2015, were 10 % and 16%, respectively. We continue to attempt to expand our sales activities for the Calmare Device and expect the majority of our revenues to come from this technology.

The Company has incurred operating losses since fiscal 2006 and has a working capital deficiency and shareholders' deficiency at March 31, 2016. The Company has taken steps to reduce its operating expenses as well as increase revenue from sales of Calmare Devices and related sales. However, even at the reduced spending levels, should the anticipated increase in revenue from sales of Calmare Devices and related sales not occur the Company may not have sufficient cash flow to fund operations through 2016 and into 2017. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments to reflect the possible future effect of the recoverability and classification of assets or amounts and classifications of liabilities that may result from the outcome of this uncertainty.

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

Our liquidity requirements arise principally from our working capital needs, including funds needed to sell our current technologies and obtain new technologies or products, and protect and enforce our intellectual property rights, if necessary. We fund our liquidity requirements with a combination of cash on hand, debt and equity financing, sales of common stock and cash flows from operations, if any, including royalty legal awards. At March 31, 2016, the Company had outstanding debt in the form of promissory notes with a total principal amount of $5,353,000 and a carrying value of $4,938,000.

2. NET LOSS PER COMMON SHARE

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

	Three months ended March 31, 2016	Three months ended